IRS TAX PAYMENT POSTING PROBLEMS IN PHILADELPHIA SERVICE CENTER

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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IRS TAX PAYMENT POSTING PROBLEMS IN THE PHILADELPHIA SERVICE CENTER

MONDAY, MARCH 11, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 1100, Longworth House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[For immediate release Friday, Feb. 15, 1985]

Hon. J.J. Pickle, (D., Tex.), Chairman, Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Announces an Investigation and Hearing on Tax Payment Posting Problems in the Philadelphia Internal Revenue Service Center

The Honorable J.J. Pickle (D., Tex.), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will examine the Internal Revenue Service [IRS] procedures and controls which insure that tax payments are posted or credited to a taxpayer's account in a timely manner. As a case example, the Subcommittee will consider recent problems that developed in the Internal Revenue Service Center in Philadelphia, Pennsylvania. The hearing will be held on Friday, March 8, 1985, in the main committee hearing room, 1100 Longworth House Office Building, beginning at 10 a.m.[1]

This hearing is being conducted as part of the Subcommittee's current review of IRS operations and practices, and as an initial hearing on the adequacy of IRS computer systems. The Subcommittee expects to address the broader issues of overall IRS staffing and the allocation of resources in subsequent hearings to review the administration's fiscal year 1986 budget submission to the Congress.

With regard to the Philadelphia Service Center problems, the IRS intends to submit a full report to the subcommittee concerning the system's failure to post business tax payments to over 26,000 taxpayer accounts. The subcommittee hearing will focus on (1) why approximately $300 million in tax payments were not processed properly, (2) whether appropriate safeguards have been put in place to prevent such problems in the future, and (3) whether taxpayers whose tax payments were not properly posted have been notified and their cases handled in an appropriate manner.

The subcommittee has requested that the Commissioner of the Internal Revenue Service appear as a witness at the hearing, to be accompanied by appropriate National Office and Service Center representatives. Persons wishing to submit written statements for the printed record of the hearing should submit at least six copies by the close of business, Friday, March 15, 1985, to Joseph K. Dowley, Chief Counsel, 1102 Longworth House Office Building, Washington, DC 20515.

Chairman **Pickle**. We will ask our guests to have a seat, and we will ask the committee to come to order.

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[1] Subsequently changed to Monday, Mar. 11, 1985, beginning at 2 p.m.

This is a meeting of the Oversight Subcommittee of the Ways and Means Committee.

Before we begin the testimony today, I would like to make a few opening remarks about the purpose and importance of this hearing. The testimony will be important both as it relates to a specific incident in the Philadelphia case, and as it sheds light on all operations of the Internal Revenue Service.

We will be reviewing a very serious tax problem which happened in the Philadelphia Service Center.

The basic facts surrounding the Philadelphia snafu are distressingly clear. A Federal tax deposit tape containing payment information concerning 26,000 taxpayers and nearly $300 million was not processed for more than 3 months.

This failure to process the tape in a timely manner caused thousands of business taxpayers to receive repeated notices of delinquency. In five cases, the IRS went so far as to issue a levy, thereby attaching assets, such as bank account funds, in order to satisfy supposedly unmet tax obligations.

It is very important to remember that these 26,000 taxpayers had paid their estimated taxes the first of October, but an IRS computer did not record them until January or February 1985.

We want to understand how this mismanagement started in early October of 1984, and why it was not completely straightened out until early February of this year. I expect we will get a fuller accounting of all this from Commissioner Egger, who is here today.

We appreciate your coming, Commissioner Egger.

After all, it has been nearly half a year since this sad chain of events began. An explanation of how and why it all happened, and what has been done to prevent future occurrences, is the very least we expect.

However, as we conduct this hearing, I hope that everyone will bear in mind that we are touching on questions which go far beyond what happened in the Philadelphia Service Center. This leads to the basic question: How reliable is the administration of our tax system?

This hearing is only the first in a process of reexamining the entire administration of the IRS. The ability of the IRS to collect taxes is the very financial bedrock on which our National Government rests. A fair and efficient method of collecting taxes is absolutely essential for a tax system that relies largely on voluntary compliance.

I know everyone talks about flat taxes and modified flat taxes and tax simplifying and all manner of things. I expect we will get into them later this year. Every year there is a near endless stream of big and small proposals to make our taxes fairer, and in this Congress we may try to do it.

But let me say to you that even if we are successful in simplifying the code, tax compliance will still drop if the public feels that the IRS is not fairly and effectively administering our Federal tax system.

What occurred in Philadelphia is but a modest example of what could happen without our continued vigilance. As we listen to the testimony today, we should recognize the implications it has for the whole range of our tax policy.

The problems experienced in Philadelphia have a very real bearing on the broader issues of IRS staffing levels, computer system improvements, IRS funding levels, and initiatives relating to taxpayer compliance and abuse. These issues demand our attention. And so our work to bring to a close this new Philadelphia story is just the beginning of a far broader undertaking by the subcommittee.

I guess this could be another comedy of errors if the whole situation wasn't so tragic.

I appreciate all you people coming to testify and help us. Mr. Schulze is to be commended for his initiative in asking for these hearings so we could have the record laid out on the table. I am sure that the public is going to be paying close attention to what is said here.

I would like to add, I have been contacted by Senator Heinz who supports our efforts and who is looking forward to having the benefit of our work as he and the Senate prepare for more hearings next week.

I would like to ask Mr. Schulze if he would like to make a statement.

Mr. SCHULZE. Yes, I would, Mr. Chairman.

I want to thank you for calling this important hearing today. I believe the tax posting problems at the Philadelphia Center should be examined from several perspectives.

First, I hope the hearing would thoroughly air the problems which occurred and indicate the extent to which remedial action has been taken to eliminate the possibility of such an occurrence in the future.

Second, I hope the hearing will examine whether this particular occurrence is a pattern of other problems, or other problems that may exist in the Service Centers. To the extent that this is the case, I would hope that both this hearing and the ongoing investigation of the subcommittee would result in recommendations which may be undertaken to cure these additional problems.

The importance of an effective operating Service Center in the overall context of our volunteer compliance tax system cannot be overstated. It is absolutely essential that taxpayers feel they are being dealt with in a fair and efficient manner by our tax administrators.

The breakdown which occurred at the Philadelphia Center serves to undermine the extent of the public's confidence in this system and may well have ramifications beyond the 26,000 taxpayers involved in that particular incident.

We constantly are advised by senior Treasury and IRS officials that there are compliance problems with respect to the individual tax system which periodically require various forms of legislation. Our experience in the 1982 Tax Equity and Fiscal Responsibility Act certainly is evidence of this, as there were many new compliance provisions enacted.

Again, in the 1984 bill there were a series of new compliance provisions. All of these compliance provisions will achieve little in the way of progress if taxpayers do not feel that the IRS is being run in an efficient manner.

This hearing should serve to eliminate the likelihood that another Philadelphia situation can arise. I certainly admire the Commissioner for the effective job which he has done in his 4 years as Commissioner of the IRS, and look forward to being able to work with him on this important matter about which I know he feels most strongly himself. And I, therefore, look forward to hearing Commissioner Egger's testimony and that of his colleagues.

I thank you, Mr. Chairman.

Chairman PICKLE. Thank you, Mr. Schulze.

Do any other Members wish to make a statement at this point, or should we proceed?

[By subsequent unanimous consent, the following was entered in the record:]

OPENING REMARKS OF HON. RAYMOND J. MCGRATH

Mr. Chairman, I commend you for devoting the time and resources of the subcommittee to problems experienced at the IRS Service Center in Philadelphia.

The integrity of the IRS and of our tax policy in general is often challenged in the media and in the minds of many citizens. It suffices to say that someone will almost always be unhappy with decisions and actions taken by the IRS as agency officials undertake their statutory duties. But problems of the magnitude of the Philadelphia incident are particularly troublesome to all concerned with the efficiency and fairness of our tax system.

I am confident we will obtain an explanation of the errors which resulted in deficiency notices being mailed to 10,000 businesses. I do not believe we are here to punish or publicly embarrass the top officials in the IRS. Their task is already among the most thankless in Washington.

I do hope, however, that we are able to use the testimony we receive today to establish policies and procedures which will prevent future problems in the functioning of the tax collection system. As a member with 4 years of oversight experience, I know that the Federal Government frequently faces unique management problems. The size and scope of the IRS is probably very susceptible to such difficulties with 150 million tax returns and reams of associated materials collected annually.

I want to welcome Commissioner Egger, and our other witnesses. I hope we will get some constructive recommendations for action we in Congress can take that will preserve the public trust in our tax system and help the IRS to carry on its important mission.

Chairman PICKLE. OK, Mr. Egger, I want to recognize you for your statement. First, however, I am going to impose upon you—perhaps other members of the committee, too—to walk through some of the chronology of the Philadelphia situation. Then we will all know what we are faced with and what actually happened.

According to our staff, this is the chronology. I think, to begin with, I want to add that it would seem to me our problem is not the fault of the computers, as some of your people in Philadelphia have said. But it was human error that caused our difficulties more than anything else. Surely we have to admit to ourselves that someone up there was either careless or crazy or almost criminally negligent if these facts are as I have said true.

Let's walk through some of it and we will ask you to respond and make any statement you wish.

Before you do, do you want to have anybody else at the table with you?

STATEMENT OF HON. ROSCOE L. EGGER, JR., COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY JIM OWENS, DEPUTY COMMISSIONER; EDDIE HEIRONIMUS, ASSOCIATE COMMISSIONER (DATA PROCESSING); STANLEY GOLDBERG, ASSISTANT COMMISSIONER (RETURNS AND INFORMATION PROCESSING); THOMAS LAYCOCK, ASSISTANT COMMISSIONER (COMPUTER SERVICES); ROBERT REBEIN, ASSISTANT COMMISSIONER (INSPECTION); WILLIAM WAUBEN, ACTING ASSISTANT COMMISSIONER (COLLECTION); GEORGE O'HANLON, TAXPAYER OMBUDSMAN; BILL WATERS, REGIONAL COMMISSIONER, MID-ATLANTIC REGION; CHARLES GUY, ASSISTANT DIRECTOR, PHILADELPHIA SERVICE CENTER; NICHOLAS NOLAN, ACTING DIVISION CHIEF, COMPUTER SERVICES AND ACCOUNTING DIVISION, PHILADELPHIA SERVICE CENTER; RAYMOND PRICE, PROBLEM RESOLUTION OFFICER, PHILADELPHIA SERVICE CENTER; WALTER DUVAL, HEAD OF INTERNAL AUDIT, MID-ATLANTIC REGION; AND ROBERT WENZEL, DIRECTOR, NATIONAL COMPUTER CENTER

Mr. EGGER. No, Mr. Chairman. I would just as soon call on them as I need information.

Chairman PICKLE. Mr. O'Hanlon, Mr. Duvall—as you need them. OK?

Mr. EGGER. Yes.

Chairman PICKLE. You may need them, so keep them handy.

Mr. EGGER. I may need them. That is why they are all here.

Chairman PICKLE. I have prepared for the Members and you, Mr. Egger, a chronology of events. Do you have that in front of you?

Mr. EGGER. Yes.

Chairman PICKLE. In order that others might follow this discussion, I would ask, do the press and the audience have them? I think it is well to walk through this for just a minute.

September 28 to October 1, 26,000 business payments were made timely, quarterly tax payments, at their depository banks. The banks sent the payments directly to the Federal Reserve, totaling $300 million, and forwarded FTD receipts to the Philadelphia Service Center.

Now, approximately a week later, October 8, the Philadelphia Service Center makes a good FTD tape of these $300 million tax payments but adds on the wrong header or direction statement which tells the computer at the National Computer Center, the NCC in Martinsburg, WV, what to do with the information on the tape.

October 12, 1984, the tape with bad header is now at the National Computer Center in Martinsburg, but as a result of the wrong header the computer does not post or credit these tax payments to the employers' accounts.

Someone at Martinsburg calls the Philadelphia Service Center—I assume to some individual—and explains they have a bad tape and asks for another one. Someone in the Computer Branch answers, but no action is taken. No new tape is developed.

There is no follow-up by either Martinsburg or Philadelphia of this call. However, Martinsburg on a weekly basis sends a weekly input report—that is a list of nonposted tapes—to the Philadelphia Service Center.

October 16, Philadelphia receives the weekly accounting report from Martinsburg. This is supposed to alert the Service Center that a tape did not post. After 2 weeks on this report, a series of bells and whistles are supposed to go off and corrections made—that is the alert, of course.

October 19, Martinsburg sends back the bad tape to Philadelphia. This tape is not to be used but placed in the library in accordance with procedures. The Office of Director in Philadelphia receives from the NCC the standard weekly input report wich identified the tape as not posted or processed. That would be the normal procedure—to bring the tape to the attention of the Computer Service Branch. And this was not followed up. We wondered why not.

On October 23, the first real accounting control. Martinsburg sent the second weekly accounting report with the $300 million discrepancy. Still no action. Under the IRS rules, this should be a big alert moving the Philadelphia center into action. Calls were made. Philadelphia promised to act and make a new tape, but nothing was done.

October 30 to November 20, these red lights went off again from four additional weekly reports, and all were ignored in a 4-week period.

November 19, the NCC called the Philadelphia office and asked for a replacement tape, but no record was made of this in Philadelphia to say the call was made.

November 20 to 27, Philadelphia Service Center Accounting Branch receives and analyzes a monthly accounting report from Martinsburg, saw the nonposting, and realized a serious error. Three accounting personnel walked over to the computer section chief and said, "You have to do something." The section chief agrees, gives a bad tape from the library to the computer supervisors.

November 19, the acting Accounting Branch was told of the situation and the acting Accounting Branch chief signed the reconciliation report, which is the first report identifying the unprocessed tape at the branch level.

Now, I will not go on because you have the report on the table there in front of you, Mr. Egger. It got so bad that finally collection notices were sent out to taxpayers. We had a replacement tape, but it was flawed and the numbers didn't balance. So they asked for a new tape and they prepared a new flawed tape in December. It was received in Martinsburg, but it wasn't accurate, at least the figures didn't balance.

Then on December 10, Martinsburg called Philadelphia and said, "We need a new tape." Nothing had been done at the Center, no record of notification, and the whole problem begins again.

I won't go on, but there are about six or seven other sequences here.

Commissioner, I am going to put the entire chronology in the record.

[The information follows:]

The following is a highlighted chronology of events of this Philadelphia Story.

September 28, 1984
October 1, 1984

Twenty-six thousand business taxpayers make timely quarterly tax payments at their despository banks. Banks sent payments directly to the Federal Reserve, with Federal Tax Deposit (FTD) coupons (receipt of employers'payments) totalling $300 million forwarded to the Philadelphia Service Center.

October 8, 1984

The Philadelphia Service Center makes a "good FTD tape" of these $300 million tax payments, but adds on the wrong "header" or direction statement which tells the computer at the National Computer Center (NCC) in Martinsburg, West Virginia what to do with the information on the tape. [Tax payments are supposed to be "posted" or credited to a taxpayer's account on the Business Master File at the Martinsburg National Computer Center.]

October 12, 1984

The tape with bad "header" is now at the National Computer Center (NCC) in Martinsburg; but, as a result of the wrong "header", the computer does not "post" or credit these tax payments to the employers' accounts.

Someone at Martinsburg calls the Philadelphia Service Center and explains that they have a "bad" tape and asks for another one. Someone in the Computer Branch answers but no action is taken - no new tape developed.

There is no follow-up by either Martinsburg or Philadelphia of this call. However, Martinsburg on a weekly basis sends "Weekly Input Report", a list of "non-posted tapes", to the Philadelphia Service Center.

October 16, 1984

Philadelphia receives the Weekly Accounting Report from Martinsburg. This is supposed to alert the Service Center that a tape did not post. After two weeks on this Report, a series of "bells and whistles" are supposed to go off and corrections made.

The first Weekly Accounting Report says there is a shortfall between whatever Philadelphia shows and what Martinsburg posted. A $300 million discrepancy.

October 19, 1984

Martinsburg sends back "bad" tape to Philadelphia. This tape is not to be used, but placed in library, in accordance with procedures.

Office of Director, Philadelphia, received from NCC the standard weekly input report which identified this tape as not posted or processed. Normal procedures (to bring it to attention of Computer Services Branch Chief) apparently not followed.

October 23, 1984 -- First Real Accounting Control; Red Lights On; Big Human Error.

Martinsburg sent second Weekly Accounting Report with $300 million discrepancy - still no action. Under IRS rules this should be a big alert moving Philadelphia Service Center into action. Calls were made; Philadelphia Computer Services Branch promised to act - make new tape. But nothing done.

October 30, 1984 - November 20, 1984

Red lights from 4 additional Weekly Accounting Reports all ignored. There should have been action.

November 19, 1984

NCC calls Philadelphia and asks for replacement tape. No record of this at Philadelphia.

November 20 to 27, 1984

Philadelphia Service Center Accounting Branch (Data Control Unit) receives and analyzes the Monthly Accounting Report from Martinsburg -- saw the non-posting and realized there was a serious problem. Three Accounting personnel walked over to Computer Support Section Chief and said you have to do something. Section Chief agrees - gives "bad" tape from library to Computer Supervisor. Use of library tape appears to be a violation of standard operating procedures.

November 28, 1984

Accounting Branch Chief was told of the situation by his Federal Tax Deposit (FTD) Unit. FTD Unit Supervisor visited Computer Support Section to follow-up on the status of the tape -- no action had been taken.

An Acting Accounting Branch Chief signed the October reconciliation report which was the first accountability report to identify the unprocessed tape at the Branch level and above. This report identified the $300 million imbalance as a "reconciled" difference. By such identification this report indicates that action to correct the imbalance has been taken. No action, however, had, apparently been undertaken. If the amount is "unreconciled", the report must be signed by Service Center Director. Copies of this report are forwarded routinely to the Regional and National Offices for review.

First Week of December 1984

Collection notices go out to taxpayers. It is standard practice. This is the first of a series, each of which have stronger wording. The final notice states that if taxpayer does not pay within 10 days, IRS will levy upon and seize property.

December 4, 1984

A replacement tape is made in Philadelphia but it is flawed: Numbers do not balance. This tape was created, in an "extraordinary action", from the old libary tape with the wrong header (a violation of IRS procedures), because all other records had been destroyed as is routinely done. The flaw was that in cutting off the wrong header, and replacing it with proper header, ~~13,000~~ [illegible] accounts ($7 million) are cut too. Replacement tape is given new different I.D. number from original one.

December 5, 1984

New, flawed replacement tape received by Martinsburg. There is some indication that Division level management became aware of problem for the first time. Everyone's recollection was that it was their impression that the necessary corrective action was underway.

December 7, 1984

Martinsburg determines that tape is bad (because amounts do not balance) and will not run it.

December 10, 1984

Martinsburg calls Philadelphia - "We need new tape". Nothing is done at Service Center (no records or notification and whole problem begins again. Moreover, Philadelphia personnel deny that request was made.

December 17, 1984

Bad replacement tape returned to Service Center. The proper program analyst (knew history) got bad tape to work on on December 23. However, no action taken because he did not know how to fix it.

Office of Director, Philadelphia Service Center, received weekly report of unprocessed tapes. Director sent it to the Computer Services and Accounting Division Chief, who sent it to both the Computer Services and the Accounting Branch Chiefs. There is no indication that anyone in management reacted to the unprocessed tape.

During preparation of November monthly report in Accounting Branch, a supervisor notified FTD Unit Supervisor of unprocessed tape. FTD Unit Supervisor advised that the problem was being solved and no further action was necessary.

December 24, 1984

The Computer Services Branch Chief, who has responsibility for ensuring that replacement tapes are timely processed, states that on this date he was notified of the problem for the first time.

December 26, 1984

The Accounting Branch Chief signs the November monthly report -- the second report identifying the unprocessed tape. (The unprocessed tape should have been identified as an unreconciled difference and should have been signed by the Service Center Director).

January 3, 1985

The Service Center Assistant Director stated that, at a daily production meeting, the unprocessed tape was mentioned as a problem that was under control. Age of the tape and other details were not provided to him.

January 10, 1985

The FTD Unit Supervisor begins getting calls from banks about unposted payments -- the Accounting Branch Chief was so notified.

January 12, 1985

Another replacement tape has been received by Martinsburg - but because it is still flawed (missing 1,300 accounts and $7 million in FTDs) it cannot be posted. Not even a single tax payment has been credited to a taxpayer's account to date!

January 14, 1985

A Service Center program analyst calls National Office expert. Determined that most of tape was good and could be posted.

Prompted by phone calls from banks, FTD Unit Supervisor notifies Accounting Branch Chief in writing of problem.

January 15, 1985

Philadelphia Service Center Director learns of problem for first time. Remember, collection notices have been out for a month. Some final notices have gone out. Service Center Director takes steps to correct problem; stops notices; halts levies; contacts affected districts.

January 20 to 26, 1985

Martinsburg posts good part of tape.

January 30, 1985

IRS Press Release announced problem and its error.

Press Story.

February 3 to 9, 1985

The remaining 1,210 ~~13,000~~ entries and $7 million that were not in the final flawed tape are finally posted.

February 7, 1985

IRS sends letter of apology to all taxpayers that got either erroneous notices or levies and to banks. (Took that long to pull names and addresses).

Chairman PICKLE. You may respond now either with your statement or in exchanges or a combination, as you wish.

Mr. THOMAS. One point on the chronology, Mr. Chairman. As I look at it, it is a blow-by-blow—I understand it doesn't count all the blows—of the errors and mistakes and missed opportunities inside the IRS. I don't see this as a statement that the IRS was as lax and as negligent externally as they were internally.

You talked about 26,000 business taxpayers from September 28 to October 1. Were they simply left in limbo over this entire period with the comedy of errors, if it were not so tragic inside the IRS; or were they——

Chairman PICKLE. The 26,000, as I understand, who had actually made deposits and paid the tax bills, did not know their account had not been posted, had not been notified that they were in difficulty until they received tax due notices.

Mr. THOMAS. As we discuss the problems inside the IRS, I would at least like to have some kind of a record of what happened to those people who met their tax due dates properly, and, despite the internal difficulties, what IRS did externally to those taxpayers who made timely payments.

Thank you, Mr. Chairman.

[The following IRS response was subsequently received:]

ACTIONS REGARDING TAXPAYERS WHO MADE TIMELY PAYMENTS

During the 4-month period when the tape did not post, taxpayers who had made payments reflected on this tape received notices asking for payment. Approximately 26,000 taxpayers received at least one notice—some received as many as three notices. Erroneous notices of levy were issued to the banks of five taxpayers; no funds were remitted to IRS for any of these five taxpayers. In addition, there were some taxpayers who had overpayments in other tax accounts. These amounts were used to offset the balance-due accounts. These taxpayers were notified when an offset was made.

When service center officials discovered the problem tape, they moved quickly to identify affected taxpayers, to stop the generation of additional notices, and to stop further collection actions. In addition, all taxpayers were sent apology letters. Beginning at that time, service center staff researched each account to ensure that amounts were properly credited, to reverse offsets, and to refund any penalties and interest charged in error. Banks were also contacted to advise them to release the levies. The banks and the taxpayers involved with erroneous levies were sent apology letters.

Chairman PICKLE. Mr. Egger.

Mr. EGGER. I am hopeful, Mr. Chairman, that the statement which I have here and which I would like to go through will clear up a lot of those questions. But certainly at the close of it, we will be happy to deal with any of them in as much detail as we need.

I appreciate the chance to be here and talk about this so that we can be sure and get it in the perspective to which it belongs.

I apologize for the length of this statement, Mr. Chairman, but it seems to me important that the members of the committee understand how we do operate and therefore can put the points brought out in the chronology you have just been over in the right perspective.

Chairman PICKLE. Your entire statement will appear in the record. But we will ask you to go ahead and proceed with a long statement, or as you wish.

Mr. EGGER. The problem is that, because it is a rather technical statement, it is a little hard to truncate it. And I will be as quick as I can about this.

Chairman PICKLE. We understand.

Mr. EGGER. Let me mention the people here with me and who will assist me in responding to any questions you or members of the committee may have.

There is Mr. James Owens, Deputy Commissioner; Eddie Heironimus, Associate Commissioner—Data Processing; Stanley Goldberg, Assistant Commissioner—Returns and Information Processing; Thomas Laycock, Assistant Commissioner—Computer Services; Robert Rebein, Assistant Commissioner—Inspection; William Wauben, Acting Assistant Commissioner—Collection; George O'Hanlon, Taxpayer Ombudsman; Bill Waters, Regional Commissioner, Mid-Atlantic; Charles Guy, Assistant Director, Philadelphia Service Center——

Mr. SCHULZE. Excuse me, Mr. Egger. It would be convenient for the members of the committee if, as the names are called, we could get them to hold up their hands or something so we can put a name with a face.

Mr. THOMAS. I understand the reluctance, but——

Mr. EGGER. I don't think they are reluctant at all. I will be happy to introduce these people. They are responsible officials.

So we will start with Jim Owens again, Deputy Commissioner; Eddie Heironimus, Associate Commissioner—Data Processing; Stanley Goldberg, Assistant Commissioner—Returns and Information Processing; Thomas Laycock, Assistant Commissioner—Computer Services; Robert Rebein, Assistant Commissioner—Inspection—which includes audit as well, by the way—William Wauben, Acting Assistant Commissioner—Collection; George O'Hanlon, Taxpayer Ombudsman; Bill Waters, Regional Commissioner, Mid-Atlantic; Charles Guy, Assistant Director, Philadelphia Service Center; Nicholas Nolan, Acting Division Chief, Computer Services and Accounting Division, Philadelphia Service Center; Raymond Price, Problem Resolution Officer, Philadelphia Service Center; Walter Duval, Head of Internal Audit, Mid-Atlantic Region; and Robert Wenzel, Director, National Computer Center.

Over the past several weeks, members of my staff have provided the subcommittee with various materials relating to the subject of today's hearing. In addition, the Service has held a number of briefings on this subject for congressional staff from both the Ways and Means Committee and the Senate Finance Committee. I hope you found these useful in preparing for this session.

The nature of today's hearing makes my testimony a difficult task. Nevertheless, I can assure you that we stand ready to describe the events as we understand them, and to attempt to answer as fully as possible any questions the members of this committee may have.

The FTD tape posting problem that we are here to discuss exposed what I believe was a weak link in what is generally a rigorous chain of IRS's system of tape and data controls. The Service handles literally tens of thousands of tapes each year. As best we can determine, the Philadelphia tape incident appears to be an aberration—a series of highly unlikely circumstances. Notwithstanding the unique aspects of this problem, the incidents in Philadelphia contain valuable lessons for use throughout the operations of the Service.

Mr. Chairman, as you probably recall from our mutual trip to the Austin Service Center last December, an IRS Service Center is a busy, complicated place where a number of vital Government revenue operations take place. Service Centers were established to: One, process returns and payments from taxpayers; two, process information documents from payers; three, send notices of payments due; four, handle certain types of correspondence; and five, perform certain other functions.

While these basic operations can be simply stated, the separate mechanisms that are employed to achieve the goal of fair and efficient tax collection have become increasingly more technical and complicated. The various specific functions—such as returns processing, collection, and examination—have developed technical specialties and a jargon all their own. While each of the functions is different from the other, all are interrelated. Much of the problem in Philadelphia was due to the failure of the people involved to understand and certainly to give proper recognition to these interrelationships.

The events that form the Philadelphia FTD tape incident demonstrate a breakdown in the Service Center's management and control systems. To be sure, this particular incident involves a great deal of bad timing and a number of contributing external causes, but nothing I say today is intended to excuse this breakdown or to suggest that this result can be laid at any other door.

In order to understand the details of the events at PSC, I would like to review the procedures that Service Centers normally follow in processing more than 60 million Federal tax deposits each year. In addition, I will cover the steps that are normally followed in the event that a replacement tape is needed. Finally, I will describe the notice and collection procedures at Service Centers.

As I mentioned, a principal function of a Service Center is to process returns and payments from taxpayers. The FTD deposit procedure in Service Centers is much like the other remittance and processing that the Service Centers perform.

In its return and payment processing capacity, the function of the Center is to take information and process it to good tape. That good tape goes to National Computer Center, NCC, in Martinsburg, WV, where the information on that tape is then transferred to one of several master files. The two main master files are the IMF [Individual Master File], and BMF [Business Master Files].

These master files, which consist of a magnetic tape record for each individual and business taxpayer reflect entity and account information. Entity information includes name, address and the taxpayer or employer identification number of the taxpayer. The account information shows such things as the tax liability and payments made for each period.

In order to see some of the details of how this processing system works, I will describe the flow of FTD payments. Business taxpayers are generally required to make their tax payments through the Federal depository system using FTD coupons. The FTD coupons are mailed or delivered by taxpayers to their local banks or other depository. The coupon is accompanied by the taxpayer's check or other instruction to credit the Government for the amount of tax due. After receipt, the bank sends the FTD coupons to an IRS Service Center.

The coupons are accompanied by the bank's computation of the number of FTD's and the total amount of the deposit. Once the FTD coupons are received by the Service Center, they are run through optical character recognition [OCR], equipment that will read the information on the coupons. As these coupons move through the OCR machine, they are microfilmed. At the same time, the OCR system produces a magnetic tape of the number of FTDs and the information on the coupons.

The magnetic tape produced by the OCR system is then run through a series of processing procedures to perfect its format and check its accuracy. At the conclusion of this perfection process, a final good tape is sent to the National Computer Center [NCC], in Martinsburg. One of the steps in the process is a check to make certain that the number of items and total dollars are in balance.

Upon receipt, NCC generally runs the tape through a preliminary testing process to see if there are any problems with the tape. If the tape runs in this preliminary testing procedure, the tape is then run to update the appropriate master file at the NCC. In the case of a payment tape, the amounts on the tape are credited to the taxpayer's account.

If a tape fails to run, NCC will attempt to investigate and correct the problem. The majority of tapes that fail to run in the first instance are corrected at the NCC. For example, in 1984, 765 master file transaction tapes failed to run in the first instance. Of that number, fewer than one-third, 222, had to be returned to the Service Center that created them.

The fact that a tape fails to run at NCC is not uncommon. Tape that has passed through the Service Center perfection process may be damaged in transit, many have physical defects, or may have been incorrectly formatted. In addition, the master file system in NCC is designed to reject tapes with even the slightest imperfection so that the information on the master files is thereby safeguarded.

Of the more than 80,000 tapes that are processed each year, a very small number are returned to the originating Service Center for replacement. The IRS's experience in this area is not different from any other large data processor.

If NCC cannot correct a problem tape, then NCC will telephone the Computer Branch in the affected Service Center and request a new tape. NCC will generally return the bad tape to the Center. Also, NCC will attempt to identify the reason that the tape failed to run.

It is important to note that the replacement tape is generally not created from the bad tape. Instead, the Service Center will respond to the telephone call from NCC by using the series of tapes that were used to create the original good tape. The technician in the Service Center will go back to these source tapes to a point prior to the point where the error was made. Once the error is corrected, the technician will proceed to run the series again to create a good tape.

When a transaction tape successfully posts to the master file, the tape is analyzed by the computer to update account data, add new accounts, and perform several other functions.

In the process of updating the master file accounts, several outputs are produced including refund tapes, research tapes, accounting and operating reports, and a notice tape. Of particular interest here is the notice tape. This tape lists all accounts requiring communication with the taxpayer.

Communication is required for many reasons. For example, when no payment or an insufficient payment is posted to a taxpayer's account, a balance due notice is generated. These notice tapes are sent back to the Service Center where the actual notices are printed, and mailed out.

At the same time, a separate notice transaction tape is generated by NCC which is used to update taxpayer account information maintained on our Integrated Data Retrieval System [IDRS]. IDRS provides our employees instantaneous visual access to updated taxpayer account information. Each time the master file generates a notice, this transaction is noted on the NCC output tape. The output tape is used to update the IDRS equipment maintained in the Service Centers as well as in the district offices.

What happened in Philadelphia? In the Philadelphia case, the taxpayers properly made third-quarter FTD payments which were processed by PSC and sent to NCC for posting to the master file. When received at NCC, the tape would not run, and a replacement was requested. Before the tape was replaced, the third quarter employment tax returns showing the amount of tax due were filed, processed at the Service Center, and posted to the taxpayers' master file accounts at NCC.

When the return information posted, and the payment information did not, the master file accounts showed that these taxpayers had paid less than the amount of tax due on their returns. Specifically, a payment for the third quarter was missing. Because Philadelphia Service Center did not timely furnish a replacement tape to NCC, the taxpayers who made deposits reflected on that tape received balance due notices.

The IRS does not have an automated method for extracting the exact dates of the notices that were sent to taxpayers. However, we do know that the Internal Revenue Manual's notice procedure calls for the issuance of the bulk of these first notices, in this case in about mid-December.

At this point, it would be valuable to review our basic notice procedure. In the case of the business master file, a first notice is followed by what we call a 503 notice, 5 weeks after the first notice. Four weeks later, a 504, or final notice, will be sent to the taxpayer. If no payment is received within 4 weeks after the final notice, the account is sent for collection action which may include levy or referral to one of our automated collection telephone sites, or both.

In certain instances—for example, where large dollar amounts are involved—the Form 503 notice is not sent. Instead, the string of notices goes from first notice to final notice, and then to levy or final action. In addition, the time period between the first and final notice is substantially reduced.

The net effect is that an FTD account can automatically go from first notice to levy in a total of 7 weeks. The collection procedure for individuals involves a greater number of notices and a greater amount of time between notices. A copy of the Internal Revenue Manual collection procedures is attached to my testimony.

Mr. Chairman, at this point I think it is appropriate to briefly go through the chronology of events involving the tape that failed to run at NCC. I realize, Mr. Chairman, you have covered this, but I would like to go through it.

Chairman PICKLE. That would be all right, Mr. Commissioner.

Mr. EGGER. A detailed chronology that has been developed from the initial draft of an IRS Internal Audit report is attached to my testimony. This chronology is substantially the same as the one that was distributed to your staff about 10 days ago.

In my testimony, I will concentrate on the early events in this series of problems, because it is only at these early stages that action can be taken to avoid the erroneous notices that are so disturbing to taxpayers.

On October 5, Friday, and October 8, Monday, the Philadelphia Service Center [PSC] ran FTD payments through the OCR process. Those 2 days of processing were consolidated on one reel of tape. That tape was run through the Service Center's perfection process and was sent to NCC on October 10, Wednesday of that week. The perfection process included a check to see if the number of items and amounts were in balance. The tape consisted primarily of third-quarter FTD payments that had been made September 28 and October 1.

On October 10, NCC received the tape and discovered that it could not run the tape due to a header problem. A header is a coded instruction at the beginning of a tape that tells the computer what to do with the information on the tape.

On October 12, Friday, NCC, following its normal procedures, called PSC for a replacement tape. PSC failed to take any action to provide a replacement tape. In our examination of this problem, we discovered that the Computer Branch at PSC had totally inadequate procedures for handling calls for replacement tapes.

Calls were handled informally by whomever happened to pick up the phone. The calls were not regularly subject to any log, control, or monitoring procedure. There was no formal method for the recipient of the call to communicate the request to the person who was responsible to do the work necessary to provide a replacement tape.

Chairman PICKLE. Some of us may wish to interrupt, and we ought to let you go through your statement, but I can't help but ask you: Is this true of all your other Centers, that there is no log, control, or monitoring procedure?

Mr. EGGER. I will really deal with that, Mr. Chairman, in the latter part of the statement.

Chairman PICKLE. All right. Go right ahead.

Mr. EGGER. On October 16, Philadelphia Service Center received the routine weekly accounting report of tapes that were processed at National Computer Center. The accounting report indicated that the FTD tape had failed to post. The Accounting Branch's data control unit identified the imbalance and noted to follow up on this matter in the event the tape failed to post on the next weekly accounting report.

On October 19, Friday, Philadelphia Service Center received a standard weekly input report which identified the reel as unprocessed. The PSC, or Philadelphia Service Center, in our jargon, failed to assure that this report was followed up on and PSC took no action to replace the unprocessed tape. The Computer Branch should have used this report as a tape management control.

Also on October 19, NCC returned the unprocessed reel to PSC. The tape was placed in the Philadelphia Service Center tape library. As I mentioned, the original reel is not generally used to create replacement tapes. The replacement tape should have been in the hands of NCC by the time the tape was returned to the Service Center.

The second weekly accounting report indicated that the tape did not process. The Accounting Branch called NCC about the tape, and NCC reportedly advised the Accounting Branch that the tape was in process. NCC has no record of this advice. The Accounting Branch took no further action at this time.

This situation continued until November 19, Monday, when NCC followed up its October 12 request for a replacement tape. Again, the Philadelphia Service Center Computer Branch failed to respond to the request.

During the period of November 20 to November 27, the Accounting Branch received a computer-based monthly accounting report that indicated that the unprocessed tape still did not post. In response to this accounting report on November 27, three individuals from the Accounting Branch walked over to the Computer Branch and told the Computer Support Section Chief that the monthly report was out of balance. The Section Chief proceeded to go to the library to find the tape that had been returned. The series of source tapes had been routinely scratched—that is, reused or scrapped—after a 30-day retention period.

The next day, November 28, Wednesday, the Accounting Branch Chief was notified by one of his employees that three Accounting Branch employees had gone to the Computer Branch to discuss a tape problem. In addition, one of the Accounting Branch employees returned to the Computer Branch to make sure that processing of the tape had begun. No processing had been started.

On December 3, Monday, a resident program analyst in the Computer Branch created a replacement tape. The Philadelphia Service Center resident program analyst created the new tape through a duplication process in which a new header was placed on the old tape. The next day, the tape was sent to the National Computer Center.

On December 6, Thursday, NCC tested the tape and discovered that the items and dollar amounts on the tape were not in balance. As you may recall, a balancing check was done at the Service Center on the original tape prior to its shipment to National Computer Center. The fact that the replacement tape did not balance indicates that it is likely that some loss of data had occurred in the process of creating the replacement tape.

Over the next week, the resident program analyst in Philadelphia and the resident program analyst in NCC discussed ways to get the imbalanced tape to run. Ultimately, the tape was returned to Philadelphia for further work. When the tape failed to run at NCC, another telephone call was made to the PSC Computer Branch for a replacement tape. Again, the recipient of the call failed to transmit the message.

Although the replacement tape was shipped back to Philadelphia Service Center on December 14 and received on December 17, the PSC resident program analyst did not receive the tape until December 23, Sunday. The program analyst continued to work on the tape until January 3, at which time he sent the tape back to NCC to try and run it again. On January 12, the National Computer Center was again unable to run the tape due to the same imbalanced condition that existed on December 6.

On January 14, an employee from the Accounting Branch contacted the Accounting Branch Chief about a series of telephone complaints from banks. The banks had been receiving inquiries from their customers about the FTD payments that the customers made in late September. The Accounting Branch employee put these complaints in writing and the matter was brought to the attention of the Director of Philadelphia Service Center the next day.

With the approval of the national office, the portion of the tape that balanced was posted to the master file during the week of January 20 to January 26. The remaining portion of the tape was recreated from the original FTD documents. This portion was posted to the master file during the week of February 3 to February 9.

As may be noted from this chronology, the senior management of the Center did not become involved in the problem at a time early enough to resolve the issue. The first time that a Branch Chief became involved in the problem was when three of the employees in the Accounting Branch went directly to the Computer Branch to talk about the imbalance in the monthly accounting report. The Accounting Branch Chief did not bring the matter to the Division Chief's attention in any formal way.

The Accounting Branch Chief does have a recollection of mentioning this problem in an informal setting to the Acting Computer Services and Accounting Division Chief, and the Quality Assurance and Management Division Chief. The parties to the discussion recall that it was everyone's understanding that necessary corrective action had been taken. The Computer Services Branch Chief states that he was not advised of the problem until approximately December 24.

There was an informal mention of this problem at a Service Center production meeting at which the Assistant Service Center Director attended in early January. Again, the impression was that corrective action was underway. Again, the Director did not learn of this matter until January 15.

Once the senior Service Center management understood the full scope of the problem, corrective steps were taken to stop notice and collection activity. All notices generated January 27 and 28 were manually stopped. In order to make the necessary changes on the automated system, the Philadelphia Service Center requested the National Computer Center to provide a tape listing of the 26,000 affected taxpayers. This list was used to input information onto

IDRS. Once input as pending payments, the notices generated by the IDRS were automatically stopped.

Unfortunately, a recent modification of our Automated Collection System [ACS], has developed a programming problem that has resulted in the issuance of duplicate final notices in certain instances. This program problem resulted in the issuance of 62 additional notices between January 27 and February 15.

In the five instances in which the notice of levy was made, the levy was released approximately February 7.

Upon learning of the problem FTD tape, I requested the Service's Internal Audit function to conduct an investigation of the events at Philadelphia and at NCC.

Chairman PICKLE. Mr. Commissioner, when did you learn of it?

Mr. EGGER. I can't recall a specific date, but it was in February, I believe.

Chairman PICKLE. In February. OK.

Mr. EGGER. While Internal Audit has not yet completed its report, the chronology of events that has been circulated to the staff and attached to my testimony has been developed from the draft report. I anticipate that a final internal audit report will be forthcoming within a few weeks. In addition, I have also asked Internal Audit to examine tape control issues at other IRS Service Centers.

On February 20, 1985, I wrote each of the Service's Regional Commissioners and asked them to describe the tape controls in the service centers in their regions. A similar request was made to the Director of the National Computer Center. The responses from these Regional Commissioners are now being reviewed.

The following corrective actions have been taken at PSC: One, require that calls for a replacement tape be made to a specific number and recorded on a sequentially numbered log. A contact memorandum must be made to document the call. The log is to be monitored until the replacement tape is received at National Computer Center; two, require that tapes be replaced with in 48 hours of the request from the National Computer Center; three, require the retention of series of input tapes until the tape or its replacement successfully posts at the National Computer Center; four, require that the NCC weekly cycle input report be used to generate a system of procedures for replacing tapes that do not post.

Chairman PICKLE. Those are the corrections taken at the PSC?

Mr. EGGER. Yes, sir.

Chairman PICKLE. Are similar actions being taken in all the centers?

Mr. EGGER. Yes.

The following corrective actions have been taken at NCC: Send the National Computer Center cycle input report by facsimile to the attention of the Service Center Director. This report will be revised to show the date the replacement tape was requested. The report will also indicate if it is a replacement tape that could not be processed and the cycle in which the original tape should have posted.

By using the term cycle, Mr. Chairman, this is a week. We use weekly cycles in the service centers, as well as in the National

Computer Center. So when I speak of a cycle, I am speaking of a week timeframe.

If a replacement tape is not received within 1 week, the Director of the National Computer Center will be alerted. The Director, NCC, will then contact the Director in the affected Service Center. If the problem is not corrected within 1 week, the Assistant Commissioner for Returns Processing in the national office will be notified.

The following corrective actions have been taken at the national office: One, top national office officials will meet with field executives involved with Service Centers to increase their awareness of and sensitivity to the impact that Service Center actions have on other Service activities and on taxpayers.

Mr. Chairman, you should also know that I will be part of that.

Two, provide a handbook of national tape management controls that will standardize local procedures for replacing problem tapes.

Three, in addition, the national office is continuing to examine computer-based tracking methods that would automatically hold up notices for taxpayers whose payments have failed to post by the return due date.

Chairman PICKLE. Mr. Commissioner, were you ever notified by the ombudsman about the Philadelphia problem?

Mr. EGGER. Yes, sir.

Chairman PICKLE. That was after it was exposed?

Mr. EGGER. Yes; after.

Chairman PICKLE. At no time in the process of figuring out the difficulty were you ever notified?

I want to ask you later what the ombudsman office was doing in all that time, but we will come to that later.

Mr. EGGER. All right.

Under circumstances such as these, it is our policy to apologize to taxpayers. This view is reflected in IRS's 1979 Policy Statement P-6-10, which says:

> If a taxpayer problem has been caused by a Service error, the mistake will be acknowledged and an apology given to the taxpayer. Internal Revenue Service officials and employees must bear in mind that the public impact of their official actions can have an effect on respect for tax law and on voluntary compliance far beyond the limits of a particular case or issue.

Specifically, our efforts in this case have included the following:

Mailing an apology letter signed by the Service Center Director on February 7 to taxpayers on the FTD tape. The principal reason that it took approximately 2 weeks to send out the letters of apology was that the FTD tape contained only technical taxpayer identity and payment information. The tape did not contain the taxpayers' names and addresses. A special program had to be written that would, one, extract the names and addresses from the master file, and two, generate the letter;

Releasing all levies that could have been affected by the failure to post third-quarter FTD credits timely. We have concluded that only five of these levies were erroneous;

Issuing a personal apology letter on February 20 to the five taxpayers who were subjected to erroneous levies. The Philadelphia Service Center also sent a letter to the financial institutions that had received the notices of levy, asking them to release the levy and apologizing for the problem;

With respect to the 62 notices that were sent out as a result of the automated collection system programming problem, we have attempted to contact taxpayers to explain the mistake by telephone call or letter;

The center is currently going through an analysis of each taxpayer's account to assure that all interest and penalties are abated and their accounts are in order.

Mr. Chairman, reading the cold print of the chronology at PSC, the series of failures and mistakes seems difficult to understand. Without in any way attempting to justify or excuse the conduct, I believe it would be valuable for this committee to understand the context in which the problems arose.

During my tenure as Commissioner, the IRS has gone through a series of very significant, almost radical, technology changes. In the past few years, we have attempted to absorb automated computer-based collection, accounting, and examination procedures. As the jobs of individual employees have become more and more specialized, our employees know more and more about their jobs but less and less about the integrated system as a whole.

The shift to more sophisticated and specialized jobs is probably unavoidable. The demands on the IRS increase with a growing and more complex economy and with each new tax bill. Consequently, we will increasingly depend on automated practices.

Despite these pressures, it is the responsibility of the senior executives in the IRS to communicate the mission of the organization to every employee. As we have seen here, the problem was not that the computer broke down; the problem was in fact that the computer worked. Unfortunately, the individuals involved did not see or give consideration to the scope of the effects that a tape posting delay may have had.

I would like to mention one additional factor. During the time period at issue here, all 10 IRS Service Centers were going through the most significant phase of what we call Service Center Replacement System, [SCRS]. Under the SCRS, virtually all the basic hardware at the Centers and NCC was replaced. In addition, we shifted our programming language so that we would be able to write new programs more easily and efficiently.

As with any undertaking of this size, a large number of transitional problems appeared. There is simply no way to avoid a shakedown period for working out the bugs in the equipment, the software, and the procedures for operation of any new system.

While there is no direct relationship between the SCRS conversion and the problems at PSC, the Center was undoubtedly focusing on the very large change that was going on around them and not the seemingly minor problem of a delay in the posting of one tape.

Also, because of some problems associated with the conversion process, our inventories of taxpayer correspondence and adjustments increased during this period. This temporary increase in inventories also tended to mask the problem from those who handle these adjustment issues.

Again, Mr. Chairman, let me publicly apologize to those taxpayers who suffered frustration and inconvenience because of our failure to properly credit their timely payments. We are sorry this happened and are working to see that it does not happen again.

I would be happy to answer your questions, Mr. Chairman.

[The prepared statement and attachments follow:]

Statement of Hon. Roscoe L. Egger, Jr., Commissioner of Internal Revenue

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO PROVIDE DETAILS ON THE RECENT FEDERAL TAX DEPOSIT (FTD) POSTING PROBLEM AT OUR PHILADELPHIA SERVICE CENTER. IN MY TESTIMONY, I WILL DISCUSS THE NATURE AND EXTENT OF THE POSTING PROBLEM, REVIEW THE STEPS WE HAVE TAKEN TO PREVENT RECURRENCE OF THIS PROBLEM, AND DESCRIBE OUR EFFORTS TO CONTACT THE AFFECTED TAXPAYERS AND INVOLVED FINANCIAL INSTITUTIONS. BY WAY OF BACKGROUND, I WILL ALSO BRIEFLY REVIEW OUR SERVICEWIDE DATA PROCESSING SYSTEM, FOCUSING ON THE WAY A SERVICE CENTER PROCESSES PAYMENTS LIKE THOSE INVOLVED ON THE FTD TAPE.

ACCOMPANYING ME TODAY ARE THE FOLLOWING IRS OFFICIALS -- JIM OWENS, DEPUTY COMMISSIONER; EDDIE HEIRONIMUS, ASSOCIATE COMMISSIONER (DATA PROCESSING); STANLEY GOLDBERG, ASSISTANT COMMISSIONER (RETURNS AND INFORMATION PROCESSING); THOMAS

Laycock, Assistant Commissioner (Computer Services); Robert Rebein, Assistant Commissioner (Inspection); William Wauben, Acting Assistant Commissioner (Collection); George O'Hanlon, Taxpayer Ombudsman; Bill Waters, Regional Commissioner, Mid-Atlantic; Charles Guy, Assistant Director, Philadelphia Service Center; Nicholas Nolan, Acting Division Chief, Computer Services and Accounting Division, Philadelphia Service Center; Raymond Price, Problem Resolution Officer, Philadelphia Service Center; Walter Duval, Head of Internal Audit, Mid-Atlantic Region; and Robert Wenzel, Director, National Computer Center.

Background

Over the past several weeks, members of my staff have provided the Subcommittee with various materials relating to the subject of today's hearing. In addition, the service has held a number of briefings on this subject for Congressional Staff from both the Ways and Means Committee and the Senate Finance Committee. I hope you found these useful in preparing for this session.

The nature of today's hearing make my testimony a difficult task. Nevertheless, I can assure you that we stand ready to describe the events as we understand them and to

ATTEMPT TO ANSWER AS FULLY AS POSSIBLE ANY QUESTIONS THE MEMBERS OF THIS COMMITTEE MAY HAVE.

THE FTD TAPE POSTING PROBLEM THAT WE ARE HERE TO DISCUSS TODAY EXPOSED WHAT I BELIEVE WAS A WEAK LINK IN WHAT IS A GENERALLY RIGOROUS CHAIN OF IRS' SYSTEM OF TAPE AND DATA CONTROLS. THE SERVICE HANDLES LITERALLY TENS OF THOUSANDS OF TAPES EACH YEAR. AS BEST WE CAN DETERMINE, THE PHILADELPHIA TAPE INCIDENT APPEARS TO BE AN ABBERATION -- A SERIES OF HIGHLY UNLIKELY CIRCUMSTANCES. NOTWITHSTANDING THE UNIQUE ASPECTS OF THIS PROBLEM, THE INCIDENTS IN PHILADELPHIA CONTAIN VALUABLE LESSONS FOR USE THROUGHOUT THE OPERATIONS OF THE SERVICE.

MR. CHAIRMAN, AS YOU PROBABLY RECALL FROM OUR MUTUAL TRIP TO THE AUSTIN SERVICE CENTER LAST DECEMBER, AN IRS SERVICE CENTER IS A BUSY, COMPLICATED PLACE WHERE A NUMBER OF VITAL GOVERNMENT REVENUE OPERATIONS TAKE PLACE. SERVICE CENTERS WERE ESTABLISHED TO (1) PROCESS RETURNS AND PAYMENTS FROM TAXPAYERS, (2) PROCESS INFORMATION DOCUMENTS FROM PAYERS, (3) SEND NOTICES OF PAYMENTS DUE (4) HANDLE CERTAIN TYPES OF CORRESPONDENCE, AND (5) PERFORM CERTAIN OTHER FUNCTIONS.

WHILE THESE BASIC OPERATIONS CAN BE SIMPLY STATED, THE SEPARATE MECHANISMS THAT ARE EMPLOYED TO ACHIEVE THE GOAL OF FAIR AND EFFICIENT TAX COLLECTION HAVE BECOME INCREASINGLY MORE

TECHNICAL AND COMPLICATED. THE VARIOUS SPECIFIC FUNCTIONS -- SUCH AS RETURNS PROCESSING, COLLECTION, AND EXAMINATION -- HAVE DEVELOPED TECHNICAL SPECIALITIES AND A JARGON ALL THEIR OWN. WHILE EACH OF THE FUNCTIONS IS DIFFERENT FROM THE OTHER, ALL ARE INTERRELATED. MUCH OF THE PROBLEM IN PHILADELPHIA WAS DUE TO THE FAILURE OF THE PEOPLE INVOLVED TO UNDERSTAND AND CERTAINLY TO GIVE PROPER RECOGNITION TO THESE INTERRELATIONSHIPS. THE EVENTS THAT FORM THE PHILADELPHIA FTD TAPE INCIDENT DEMONSTRATE A BREAKDOWN IN THE SERVICE CENTER'S MANAGEMENT AND CONTROL SYSTEMS. TO BE SURE, THIS PARTICULAR INCIDENT INVOLVES A GREAT DEAL OF BAD TIMING AND A NUMBER OF CONTRIBUTING EXTERNAL CAUSES, BUT NOTHING I SAY TODAY IS INTENDED TO EXCUSE THIS BREAKDOWN OR TO SUGGEST THAT THIS RESULT CAN BE LAID AT ANY OTHER DOOR.

ROUTINE PROCESSING AND TAPE REPLACEMENT PROCEDURES

IN ORDER TO UNDERSTAND THE DETAILS OF THE EVENTS AT PSC, I WOULD LIKE TO REVIEW THE PROCEDURES THAT SERVICE CENTERS NORMALLY FOLLOW IN PROCESSING MORE THAN 60 MILLION FEDERAL TAX DEPOSITS EACH YEAR. IN ADDITION, I WILL COVER THE STEPS THAT ARE NORMALLY FOLLOWED IN THE EVENT THAT A REPLACEMENT TAPE IS NEEDED. FINALLY, I WILL DESCRIBE THE NOTICE AND COLLECTION PROCEDURES AT SERVICE CENTERS.

-- Normal Federal Tax Deposit (FTD) Procedures

As I mentioned, a principal function of a service center is to process returns and payments from taxpayers. The FTD deposit procedure in Service Centers is much like the other remittance and processing that the Service Centers perform.

In its return and payment processing capacity, the function of the Center is to take information and process it to "good tape". That good tape goes to National Computer Center (NCC) in Martinsburg, West Virginia where the information on that tape is then transferred to one of several "master files". The two main master files are the IMF (Individual) and BMF (Business) master files. These master files, which consist of a magnetic tape record for each individual and business taxpayer reflect entity and account information. Entity information includes name, address and the taxpayer or employer identification number of the taxpayer. The account information shows such things as the tax liability and payments made for each period.

In order to see some of the details of how this processing system works I will describe the flow of FTD payments.

BUSINESS TAXPAYERS ARE GENERALLY REQUIRED TO MAKE THEIR TAX PAYMENTS THROUGH THE FEDERAL DEPOSITORY SYSTEM USING FTD COUPONS. THE FTD COUPONS ARE MAILED OR DELIVERED BY TAXPAYERS TO THEIR LOCAL BANKS OR OTHER DEPOSITORY. THE COUPON IS ACCOMPANIED BY THE TAXPAYER'S CHECK OR OTHER INSTRUCTION TO CREDIT THE GOVERNMENT FOR THE AMOUNT OF TAX DUE. AFTER RECEIPT, THE BANK SENDS THE FTD COUPONS TO AN IRS SERVICE CENTER. THE COUPONS ARE ACCOMPANIED BY THE BANK'S COMPUTATION OF THE NUMBER OF FTDS AND THE TOTAL AMOUNT OF THE DEPOSIT. ONCE THE FTD COUPONS ARE RECEIVED BY THE SERVICE CENTER THEY ARE RUN THROUGH OPTICAL CHARACTER RECOGNITION (OCR) EQUIPMENT THAT WILL READ THE INFORMATION ON THE COUPONS. AS THESE COUPONS MOVE THROUGH THE OCR MACHINE, THEY ARE MICROFILMED. AT THE SAME TIME THE OCR SYSTEM PRODUCES A MAGNETIC TAPE OF THE NUMBER OF FTDS AND THE INFORMATION ON THE COUPONS.

THE MAGNETIC TAPE PRODUCED BY THE OCR SYSTEM IS THEN RUN THROUGH A SERIES OF PROCESSING PROCEDURES TO PERFECT ITS FORMAT AND CHECK ITS ACCURACY. AT THE CONCLUSION OF THIS PERFECTION PROCESS, A FINAL "GOOD TAPE" IS SENT TO NCC IN MARTINSBURG. ONE OF THE STEPS IN THE PROCESS IS A CHECK TO MAKE CERTAIN THAT THE NUMBER OF ITEMS AND TOTAL DOLLARS ARE IN BALANCE.

UPON RECEIPT, NCC GENERALLY RUNS THE TAPE THROUGH A PRELIMINARY TESTING PROCESS TO SEE IF THERE ARE ANY PROBLEMS WITH THE TAPE. IF THE TAPE RUNS IN THIS PRELIMINARY TESTING PROCEDURE, THE TAPE IS THEN RUN TO UPDATE THE APPROPRIATE MASTER FILE AT NCC. IN THE CASE OF A PAYMENT TAPE, THE AMOUNTS ON THE TAPE ARE CREDITED TO THE TAXPAYER'S ACCOUNT.

-- NORMAL REPLACEMENT PROCEDURE FOR TAPE FAILURE

IF A TAPE FAILS TO RUN, NCC WILL ATTEMPT TO INVESTIGATE AND CORRECT THE PROBLEM. THE MAJORITY OF TAPES THAT FAIL TO RUN IN THE FIRST INSTANCE ARE CORRECTED AT NCC. FOR EXAMPLE, IN 1984 765 MASTER FILE TRANSACTION TAPES FAILED TO RUN IN THE FIRST INSTANCE. OF THAT NUMBER, FEWER THAN ONE-THIRD (222) HAD TO BE RETURNED TO THE SERVICE CENTER THAT CREATED THEM.

THE FACT THAT A TAPE FAILS TO RUN AT NCC IS NOT UNCOMMON. TAPE THAT HAS PASSED THROUGH THE SERVICE CENTER PERFECTION PROCESS MAY BE DAMAGED IN TRANSIT, MANY HAVE PHYSICAL DEFECTS, OR MAY HAVE BEEN INCORRECTLY FORMATTED. IN ADDITION, THE MASTER FILE SYSTEM IN NCC IS DESIGNED TO REJECT TAPES WITH EVEN THE SLIGHTEST IMPERFECTION SO THAT THE INFORMATION ON THE MASTER FILES IS SAFEGUARDED.

OF THE MORE THAN 80,000 TAPES THAT ARE PROCESSED EACH YEAR A VERY SMALL NUMBER ARE RETURNED TO THE ORIGINATING

SERVICE CENTER FOR REPLACEMENT. THE IRS' EXPERIENCE IN THIS AREA IS NOT DIFFERENT FROM ANY OTHER LARGE DATA PROCESSOR.

IF NCC CANNOT CORRECT A PROBLEM TAPE, NCC WILL TELEPHONE THE COMPUTER BRANCH IN THE AFFECTED SERVICE CENTER AND REQUEST A NEW TAPE. NCC WILL GENERALLY RETURN THE "BAD" TAPE TO THE CENTER. ALSO, NCC WILL ATTEMPT TO IDENTIFY THE REASON THAT THE TAPE FAILED TO RUN.

IT IS IMPORTANT TO NOTE THAT THE REPLACEMENT TAPE IS GENERALLY NOT CREATED FROM THE "BAD" TAPE. INSTEAD, THE SERVICE CENTER WILL RESPOND TO THE TELEPHONE CALL FROM NCC BY USING THE SERIES OF TAPES THAT WERE USED TO CREATE THE ORIGINAL "GOOD TAPE". THE TECHNICIAN IN THE SERVICE CENTER WILL GO BACK THESE SOURCE TAPES TO A POINT PRIOR TO THE POINT WHERE THE ERROR WAS MADE. ONCE THE ERROR IS CORRECTED THE TECHNICIAN WILL PROCEED TO RUN THE SERIES AGAIN TO CREATE "GOOD" TAPE.

COLLECTION PROCEDURES

WHEN A TRANSACTION TAPE SUCCESSFULLY POSTS TO THE MASTER FILE, THE TAPE IS ANALYZED BY THE COMPUTER TO UPDATE ACCOUNT DATA, ADD NEW ACCOUNTS, AND PERFORM SEVERAL OTHER FUNCTIONS.

IN THE PROCESS OF UPDATING THE MASTER FILE ACCOUNTS, SEVERAL OUTPUTS ARE PRODUCED INCLUDING REFUND TAPES, RESEARCH TAPES, ACCOUNTING AND OPERATING REPORTS, AND A NOTICE TAPE. OF PARTICULAR INTEREST HERE IS THE NOTICE TAPE. THIS TAPE LISTS ALL ACCOUNTS REQUIRING COMMUNICATION WITH THE TAXPAYER. COMMUNICATION IS REQUIRED FOR MANY REASONS. FOR EXAMPLE, WHEN NO PAYMENT OR AN INSUFFICIENT PAYMENT IS POSTED TO A TAXPAYER'S ACCOUNT A BALANCE DUE NOTICE IS GENERATED. THESE NOTICE TAPES ARE SENT BACK TO THE SERVICE CENTER WHERE THE ACTUAL NOTICES ARE PRINTED, AND MAILED.

AT THE SAME TIME, A SEPARATE NOTICE TRANSACTION TAPE IS GENERATED BY NCC WHICH IS USED TO UPDATE TAXPAYER ACCOUNT INFORMATION MAINTAINED ON IDRS (INTEGRATED DATA RETRIEVAL SYSTEM). IDRS PROVIDES OUR EMPLOYEES INSTANTANEOUS VISUAL ACCESS TO UPDATED TAXPAYER ACCOUNT INFORMATION. EACH TIME THE MASTER FILE GENERATES A NOTICE THIS TRANSACTION IS NOTED ON THE NCC OUTPUT TAPE. THE OUTPUT TAPE IS USED TO UPDATE THE IDRS EQUIPMENT MAINTAINED IN SERVICE CENTERS AND DISTRICT OFFICES.

WHAT HAPPENED IN PHILADELPHIA

IN THE PHILADELPHIA CASE, THE THIRD QUARTER FTD PAYMENTS WERE PROPERLY MADE, PROCESSED BY PSC AND SENT TO NCC FOR POSTING TO THE MASTER FILE. WHEN RECEIVED AT NCC, THE TAPE WOULD NOT RUN, AND A REPLACEMENT WAS REQUESTED. BEFORE THE

TAPE WAS REPLACED, THE 3RD QUARTER EMPLOYMENT TAX RETURNS SHOWING THE AMOUNT OF TAX DUE WERE FILED, PROCESSED AT THE SERVICE CENTER, AND POSTED TO THE TAXPAYERS' MASTER FILE ACCOUNTS AT NCC. WHEN THE RETURN INFORMATION POSTED, AND THE PAYMENT INFORMATION DID NOT, THE MASTER FILE ACCOUNTS SHOWED THAT THESE TAXPAYERS HAD PAID LESS THAN THE AMOUNT OF TAX DUE ON THEIR RETURNS. SPECIFICALLY, A PAYMENT FOR THE THIRD QUARTER WAS MISSING. BECAUSE PSC DID NOT TIMELY FURNISH A REPLACEMENT TAPE TO NCC, THE TAXPAYERS WHO MADE DEPOSITS REFLECTED ON THAT TAPE RECEIVED BALANCE DUE NOTICES.

THE IRS DOES NOT HAVE AN AUTOMATED METHOD FOR EXTRACTING THE EXACT DATES OF THE NOTICES THAT WERE SENT TO TAXPAYERS. HOWEVER, WE DO KNOW THAT THE INTERNAL REVENUE MANUAL'S NOTICE PROCEDURE CALLS FOR THE ISSUANCE OF THE BULK OF THESE FIRST NOTICES IN EARLY TO MID-DECEMBER.

AT THIS POINT IT WOULD BE VALUABLE TO REVIEW OUR BASIC NOTICE PROCEDURE. IN THE CASE OF THE BUSINESS MASTER FILE, AFIRST NOTICE IS FOLLOWED BY WHAT WE CALL A 503 NOTICE FIVE WEEKS AFTER THE FIRST NOTICE. FOUR WEEKS LATER, A 504 OR FINAL NOTICE WILL BE SENT TO THE TAXPAYER. IF NO PAYMENT IS RECEIVED WITHIN FOUR WEEKS AFTER THE FINAL NOTICE, THE ACCOUNT IS SENT FOR COLLECTION ACTION WHICH MAY INCLUDE LEVY OR REFERRAL TO ONE OF OUR AUTOMATED COLLECTION TELEPHONE SITES OR BOTH.

In certain instances (for example where large dollar amounts are involved) the Form 503 notice is not sent. Instead, the string of notices goes from first notice to final notice to levy or other collection action. In addition, the time period between the first and final notice is substantially reduced. The net effect is that an FTD account can automatically go from first notice to levy in a total of 7 weeks. The collection procedure for individuals involves a greater number of notices and a greater amount of time between notices. A copy of the Internal revenue Manual collection procedures is attached to my testimony.

Chronology Involving Reel 301682

Mr. Chairman, at this point I think it is appropriate to briefly go through the chronology of events involving the tape that failed to run at NCC. A detailed chronology that has been developed from the initial draft of an IRS Internal Audit report is attached to my testimony. This chronology is substantially the same as the one that was distributed to the staff approximately 10 days ago.

In my testimony, I will concentrate on the early events in this series of problems, because it is only at these early stages that action can be taken to avoid the erroneous notices that are so disturbing to taxpayers.

On October 5 (Fri) and October 8 (Mon) the Philadelphia Service Center (PSC) ran FTD payments through the OCR process. Those two days of processing were consolidated on one reel of tape. That tape was run through the Service Center's perfection process, and was sent to NCC on 10/10 (Wed). The perfection process included a check to see if the number of items and amounts were in balance. The tape consisted primarily of 3rd quarter FTD payments that had been made 9/28 and 10/1.

On 10/10 NCC received the tape and discovered that it could not run the tape due to a "header" problem. A header is a coded instruction at the beginning of a tape that tells the computer what to do with the information on the tape. On 10/12 (Fri) NCC, following its normal procedures, called PSC for a replacement tape. PSC failed to take any action to provide a replacement tape. In our examination of this problem, we discovered that the Computer Branch at PSC had totally inadequate procedures for handling calls for replacement tapes. Calls were handled informally by whomever happened to pick up the phone. The calls were not regularly subject to any log, control, or monitoring procedure. There was no formal method for the recipient of the call to communicate the request to the person who was responsible to do the work necessary to provide a replacement tape.

ON 10/16 PSC RECEIVED THE ROUTINE WEEKLY ACCOUNTING REPORT OF TAPES THAT WERE PROCESSED AT NCC. THE ACCOUNTING REPORT INDICATED THAT THE FTD TAPE HAD FAILED TO POST. THE ACCOUNTING BRANCH'S DATA CONTROL UNIT IDENTIFIED THE IMBALANCE AND NOTED TO FOLLOW-UP ON THIS MATTER IN THE EVENT THE TAPE FAILED TO POST ON THE NEXT WEEKLY ACCOUNTING REPORT.

ON 10/19 (FRI) PSC RECEIVED A STANDARD WEEKLY INPUT REPORT WHICH IDENTIFIED THE REEL AS UNPROCESSED. PSC FAILED TO ASSURE THAT THIS REPORT WAS
FOLLOWED UP ON AND PSC TOOK NO ACTION TO REPLACE THE UNPROCESSED TAPE. THE COMPUTER BRANCH SHOULD HAVE USED THIS REPORT AS A TAPE MANAGEMENT CONTROL.

ALSO ON 10/19 (FRI), NCC RETURNED THE UNPROCESSED REEL TO PSC. THE TAPE WAS PLACED IN THE PSC TAPE LIBRARY. AS I MENTIONED, THE ORIGINAL REEL IS NOT GENERALLY USED TO CREATE REPLACEMENT TAPES. THE REPLACEMENT TAPE SHOULD HAVE BEEN IN THE HANDS OF NCC BY THE TIME THE TAPE WAS RETURNED TO THE SERVICE CENTER.

ON 10/23 (TUE) THE SECOND WEEKLY ACCOUNTING REPORT INDICATED THAT THE TAPE DID NOT PROCESS. THE ACCOUNTING BRANCH CALLED NCC ABOUT THE TAPE AND NCC REPORTEDLY ADVISED THE ACCOUNTING BRANCH THAT THE TAPE WAS IN PROCESS. NCC HAS NO RECORD OF THIS ADVICE. THE ACCOUNTING BRANCH TOOK NO FURTHER ACTION AT THIS TIME.

This situation continued until 11/19 (Mon) when NCC followed-up its 10/12 request for a replacement tape. Again, the PSC Computer Branch failed to respond to the call.

During the period of 11/20-27, the Accounting Branch received a computer based monthly accounting report that indicated that the unprocessed tape still did not post. In response to this accounting report on 11/27, three individuals from the Accounting Branch walked over to the Computer Branch and told the Computer Support Section Chief that the monthly report was out of balance. The Section Chief proceeded to go to the library to find the tape that had been returned from NCC. The series of source tapes had been routinely "scratched", (i.e., reused) after a 30 day retention period.

The next day, 11/28 (Wed), the Accounting Branch Chief was notified by one of his employees that three Accounting Branch employees had gone to the Computer Branch to discuss a tape problem. In addition, one of the Accounting Branch employees returned to the Computer Branch to make sure that processing of the tape had begun. No processing had been started.

On 12/3 (Mon) a Resident Program Analyst in the Computer Branch created a replacement tape. The PSC Resident Program Analyst created the new tape through a duplication process in

WHICH A NEW HEADER WAS PLACED ON THE OLD TAPE. THE NEXT DAY THE TAPE WAS SHIPPED TO NCC.

ON 12/6 (THU) NCC TESTED THE TAPE AND DISCOVERED THAT THE ITEMS AND DOLLAR AMOUNTS ON THE TAPE WERE NOT IN BALANCE. AS YOU MAY RECALL, A BALANCING CHECK WAS DONE AT THE SERVICE CENTER ON THE ORIGINAL TAPE PRIOR TO ITS SHIPMENT TO NCC. THE FACT THAT THE REPLACEMENT TAPE DID NOT BALANCE INDICATES THAT IT IS LIKELY THAT SOME LOSS OF DATA OCCURRED IN THE PROCESS OF CREATING THE REPLACEMENT TAPE.

OVER THE NEXT WEEK (12/7-12/14), THE RESIDENT PROGRAM ANALYST IN PHILADELPHIA AND THE RESIDENT PROGRAM ANALYST IN NCC DISCUSSED WAYS TO GET THE IMBALANCED TAPE TO RUN. ULTIMATELY, THE TAPE WAS RETURNED TO THE PHILADELPHIA RESIDENT PROGRAM ANALYST FOR FURTHER WORK. WHEN THE TAPE FAILED TO RUN AT NCC, ANOTHER TELEPHONE CALL WAS MADE TO THE PSC COMPUTER BRANCH FOR A REPLACEMENT TAPE. AGAIN, THE RECIPIENT OF THE CALL FAILED TO TRANSMIT THE MESSAGE.

ALTHOUGH THE REPLACEMENT TAPE WAS SHIPPED BACK TO PSC ON 12/14 (FRI) AND RECEIVED ON 12/17 (MON), THE PSC RESIDENT PROGRAM ANALYST DID NOT RECEIVE THE TAPE UNTIL 12/23 (SUN). THE PSC RESIDENT PROGRAM ANALYST CONTINUED TO WORK ON THE TAPE UNTIL 1/3 AT WHICH TIME HE SENT THE TAPE BACK TO NCC TO TRY AND

RUN IT AGAIN. ON 1/12 (SAT) NCC WAS AGAIN UNABLE TO RUN THE TAPE DUE TO THE SAME IMBALANCED CONDITION THAT EXISTED ON 12/6 (THU).

ON 1/14 (MON) AN EMPLOYEE FROM THE ACCOUNTING BRANCH CONTACTED THE ACCOUNTING BRANCH CHIEF ABOUT A SERIES OF TELEPHONE COMPLAINTS FROM BANKS. THE BANKS HAD BEEN RECEIVING INQUIRIES FROM THEIR CUSTOMERS ABOUT THE FTD PAYMENTS THAT THE CUSTOMERS MADE IN LATE SEPTEMBER. THE ACCOUNTING BRANCH EMPLOYEE PUT THESE COMPLAINTS IN WRITING AND THE MATTER WAS BROUGHT TO THE ATTENTION OF THE DIRECTOR, PSC THE NEXT DAY. WITH THE APPROVAL OF THE NATIONAL OFFICE THE PORTION OF THE TAPE THAT BALANCED WAS POSTED TO THE MASTER FILE DURING THE WEEK OF 1/20-1/26. THE REMAINING PORTION OF THE TAPE WAS RECREATED FORM THE ORIGINAL FTD DOCUMENTS. THIS PORTION POSTED TO THE MASTER FILE DURING THE WEEK OF 02/3-02/9.

AS MAY BE NOTED FROM THIS CHRONOLOGY, THE SENIOR MANAGEMENT OF THE CENTER DID NOT BECOME INVOLVED IN THE PROBLEM AT A TIME EARLY ENOUGH TO RESOLVE THE ISSUE. THE FIRST TIME THAT A BRANCH CHIEF BECAME INVOLVED IN THE PROBLEM WAS WHEN THREE OF THE EMPLOYEES IN THE ACCOUNTING BRANCH WENT DIRECTLY TO THE COMPUTER BRANCH TO TALK ABOUT THE IMBALANCE IN THE MONTHLY ACCOUNTING REPORT. THE ACCOUNTING BRANCH CHIEF DID NOT BRING THE MATTER TO THE DIVISION CHIEF'S ATTENTION IN ANY FORMAL WAY. THE ACCOUNTING BRANCH CHIEF DOES HAVE A

RECOLLECTION OF MENTIONING THIS PROBLEM IN AN INFORMAL SETTING TO THE ACTING COMPUTER SERVICES AND ACCOUNTING DIVISION CHIEF AND THE QUALITY ASSURANCE AND MANAGEMENT DIVISION CHIEF. THE PARTIES TO THE DISCUSSION RECALL THAT IT WAS EVERYONE'S UNDERSTANDING THAT NECESSARY CORRECTIVE ACTION HAD BEEN TAKEN. THE COMPUTER SERVICES BRANCH CHIEF STATES THAT HE WAS NOT ADVISED OF THE PROBLEM UNTIL APPROXIMATELY 12/24.

THERE WAS AN INFORMAL MENTION OF THIS PROBLEM AT A SERVICE CENTER PRODUCTION MEETING AT WHICH THE ASSISTANT SERVICE CENTER DIRECTOR ATTENDED IN EARLY JANUARY. AGAIN, THE IMPRESSION WAS THAT CORRECTIVE ACTION WAS UNDERWAY. FINALLY, THE DIRECTOR DID NOT LEARN OF THIS MATTER UNTIL 1/15.

ONCE THE SENIOR SERVICE CENTER MANAGEMENT UNDERSTOOD THE FULL SCOPE OF THE PROBLEM, CORRECTIVE STEPS WERE TAKEN TO STOP NOTICE AND COLLECTION ACTIVITY. ALL NOTICES GENERATED JANUARY 27 AND 28 WERE MANUALLY STOPPED. IN ORDER TO MAKE THE NECESSARY CHANGES ON THE AUTOMATED SYSTEM PSC REQUESTED NCC TO PROVIDE A TAPE LISTING OF THE 26,000 AFFECTED TAXPAYERS. THIS LIST WAS USED TO INPUT INFORMATION ONTO IDRS. ONCE INPUT AS PENDING PAYMENTS, THE NOTICES GENERATED BY IDRS WERE AUTOMATICALLY STOPPED.

UNFORTUNATELY, A RECENT MODIFICATION OF OUR AUTOMATED COLLECTION SYSTEM (ACS) HAS DEVELOPED A PROGRAMMING PROBLEM THAT HAS RESULTED IN THE ISSUANCE OF DUPLICATE FINAL NOTICES IN

CERTAIN INSTANCES. THIS PROGRAM PROBLEM RESULTED IN THE ISSUANCE OF 62 ADDITIONAL NOTICES BETWEEN JANUARY 27 AND FEBRUARY 15.

IN THE FIVE INSTANCES IN WHICH NOTICE OF LEVY WAS MADE, THE LEVY WAS RELEASED APPROXIMATELY FEBRUARY 7.

CORRECTIVE ACTIONS TAKEN OR PLANNED

UPON LEARNING OF THE PROBLEM FTD TAPE, I REQUESTED THE SERVICE'S INTERNAL AUDIT FUNCTION TO CONDUCT AN INVESTIGATION OF THE EVENTS AT PHILADELPHIA AND AT NCC. WHILE INTERNAL AUDIT HAS NOT YET COMPLETED ITS REPORT, THE CHRONOLOGY OF EVENTS THAT HAS BEEN CIRCULATED TO THE STAFF AND ATTACHED TO MY TESTIMONY HAS BEEN DEVELOPED FROM THE DRAFT REPORT. I ANTICIPATE THAT A FINAL INTERNAL AUDIT REPORT WILL BE FORTHCOMING WITHIN A FEW WEEKS. IN ADDITION, I HAVE ALSO ASKED INTERNAL AUDIT TO EXAMINE TAPE CONTROL ISSUES AT OTHER IRS SERVICE CENTERS.

ON FEBRUARY 20, 1985, I WROTE EACH OF THE SERVICE'S REGIONAL COMMISSIONERS AND ASKED THEM TO DESCRIBE THE TAPE

CONTROLS IN THE SERVICE CENTERS IN THEIR REGIONS. A SIMILAR REQUEST WAS MADE TO THE DIRECTOR, NCC. THE RESPONSES ARE NOW BEING REVIEWED.

THE FOLLOWING CORRECTIVE ACTIONS HAVE BEEN TAKEN AT PSC:

1. REQUIRE THAT CALLS FOR A REPLACEMENT TAPE BE MADE TO A SPECIFIC NUMBER AND RECORDED ON A SEQUENTIALLY NUMBERED LOG. A CONTACT MEMORANDUM MUST BE MADE TO DOCUMENT THE CALL. THE LOG IS TO BE MONITORED UNTIL THE REPLACEMENT TAPE IS RECEIVED AT NCC.

2. REQUIRE THAT TAPES BE REPLACED WITHIN 48 HOURS OF THE REQUEST FROM NCC.

3. REQUIRE THE RETENTION OF SERIES OF INPUT TAPES UNTIL THE TAPE (OR ITS REPLACEMENT) SUCCESSFULLY POSTS AT NCC.

4. REQUIRE THAT THE NCC WEEKLY CYCLE INPUT REPORT BE USED TO GENERATE A SYSTEM OF PROCEDURES FOR REPLACING TAPES THAT DO NOT POST.

THE FOLLOWING CORRECTIVE ACTIONS HAVE BEEN TAKEN AT NCC:

1. SEND THE NCC CYCLE INPUT REPORT BY FACSIMILE TO THE ATTENTION OF THE SERVICE CENTER DIRECTOR. THIS REPORT WILL BE REVISED TO SHOW THE DATE THE REPLACEMENT TAPE WAS REQUESTED. THE REPORT WILL ALSO INDICATE IF IT IS A REPLACEMENT TAPE THAT COULD NOT BE PROCESSED AND THE CYCLE IN WHICH THE ORIGINAL TAPE SHOULD HAVE POSTED.

2. IF A REPLACEMENT TAPE IS NOT RECEIVED WITHIN ONE WEEK, THE DIRECTOR, NCC WILL BE ALERTED. THE DIRECTOR, NCC WILL THEN CONTACT THE DIRECTOR IN THE AFFECTED SERVICE CENTER. IF THE PROBLEM IS NOT CORRECTED WITHIN ONE WEEK THE ASSISTANT COMMISSIONER (RETURNS PROCESSING) IN THE NATIONAL OFFICE WILL BE NOTIFIED.

THE FOLLOWING CORRECTIVE ACTIONS HAVE BEEN TAKEN AT THE NATIONAL OFFICE:

1. TOP NATIONAL OFFICE OFFICIALS WILL MEET WITH FIELD EXECUTIVES INVOLVED WITH SERVICE CENTERS TO INCREASE THEIR AWARENESS OF AND SENSITIVITY TO THE IMPACT THAT SERVICE CENTER ACTIONS HAVE ON OTHER SERVICE ACTIVITIES AND ON TAXPAYERS.

2. PROVIDE A HANDBOOK OF NATIONAL TAPE MANAGEMENT CONTROLS THAT WILL STANDARDIZE LOCAL PROCEDURES FOR REPLACING PROBLEM TAPES.

3. IN ADDITION THE NATIONAL OFFICE IS CONTINUING TO EXAMINE COMPUTER-BASED TRACKING METHODS THAT WOULD AUTOMATICALLY HOLD UP NOTICES FOR TAXPAYERS WHOSE PAYMENTS HAVE FAILED TO POST BY THE RETURN DUE DATE.

APOLOGIES TO TAXPAYERS

UNDER CIRCUMSTANCES SUCH AS THESE IT IS OUR POLICY TO APOLOGIZE TO TAXPAYERS. THIS VIEW IS REFLECTED IN IRS' 1979 POLICY STATEMENT P-6-10, WHICH SAYS (IN PART):

> "IF A TAXPAYER PROBLEM HAS BEEN CAUSED BY A SERVICE ERROR, THE MISTAKE WILL BE ACKNOWLEDGED AND AN APOLOGY GIVEN TO THE TAXPAYER. INTERNAL REVENUE SERVICE OFFICIALS AND EMPLOYEES MUST BEAR IN MIND THAT THE PUBLIC IMPACT OF THEIR OFFICIAL ACTIONS CAN HAVE AN EFFECT ON RESPECT FOR TAX LAW AND ON VOLUNTARY COMPLIANCE FAR BEYOND THE LIMITS OF A PARTICULAR CASE OR ISSUE."

SPECIFICALLY, OUR EFFORTS IN THIS CASE HAVE INCLUDED THE FOLLOWING -

--MAILING AN APOLOGY LETTER SIGNED BY THE SERVICE CENTER DIRECTOR ON FEBRUARY 7 TO ALL TAXPAYERS ON THE FTD TAPE. THE PRINCIPAL REASON THAT IT TOOK APPROXIMATELY TWO WEEKS TO SEND OUT THE LETTERS OF APOLOGY WAS THAT THE FTD TAPE CONTAINED ONLY TECHNICAL TAXPAYER IDENTITY AND PAYMENT INFORMATION. THE TAPE DID NOT CONTAIN THE TAXPAYERS' NAMES AND ADDRESSES. A SPECIAL PROGRAM HAD TO BE WRITTEN THAT WOULD (1) EXTRACT THE NAMES AND ADDRESSES FROM THE MASTER FILE AND (2) GENERATE THE LETTER.

--RELEASING ALL LEVIES THAT COULD HAVE BEEN AFFECTED BY THE FAILURE TO POST THIRD QUARTER FTD CREDITS TIMELY. WE HAVE CONCLUDED THAT ONLY FIVE OF THESE LEVIES WERE ERRONEOUS.

--ISSUING A PERSONAL APOLOGY LETTER ON FEBRUARY 20 TO THE FIVE TAXPAYERS WHO WERE SUBJECTED TO ERRONEOUS LEVIES. PSC ALSO SENT A LETTER TO THE FINANCIAL INSTITUTIONS THAT HAD RECEIVED THE NOTICES OF LEVY, ASKING THEM TO RELEASE THE LEVY AND APOLOGIZING FOR THE PROBLEM.

--WITH RESPECT TO THE 62 NOTICES THAT WERE SENT OUT AS A RESULT OF THE ACS PROGRAMMING PROBLEM, WE HAVE ATTEMPTED TO CONTACT TAXPAYERS TO EXPLAIN THE MISTAKE BY TELEPHONE CALL OR LETTER.

--THE CENTER IS CURRENTLY GOING THROUGH AN ANALYSIS OF EACH TAXPAYER'S ACCOUNT TO ASSURE THAT ALL INTEREST AND PENALTIES ARE ABATED AND THEIR ACCOUNTS ARE IN ORDER.

Additional Factors

Reading the cold print of the chronology at PSC, the series of failures and mistakes seems difficult to understand. Without in any way attempting to justify or excuse the conduct, I believe it would be valuable for this Committee to understand the context in which the problems arose.

During my tenure as Commissioner, the IRS has gone through a series of very significant, almost radical technological changes. In the past few years we have attempted to absorb automated computer-based collection, accounting, and examination procedures. As the jobs of individual employees have become more and more specialized, our employees know more and more about their jobs but less and less about the integrated system as a whole.

The shift to more sophisticated and specialized jobs is probably unavoidable. The demands on the IRS increase with a growing and more complex economy and with each new tax bill. Consequently, we will increasingly depend on automated practices.

Despite these pressures, it is the responsibility of senior executives in the IRS to communicate the mission of the organization to every employee. As we have seen here, the

PROBLEM WAS NOT THAT THE "COMPUTER" BROKE DOWN, THE PROBLEM WAS THAT THE "COMPUTER" WORKED. UNFORTUNATELY, THE INDIVIDUALS INVOLVED DID NOT SEE OR GIVE CONSIDERATION TO THE SCOPE OF THE EFFECTS THAT A TAPE POSTING DELAY MIGHT HAVE.

I WOULD LIKE TO MENTION ONE ADDITIONAL FACTOR. DURING THE TIME PERIOD AT ISSUE HERE ALL 10 IRS SERVICE CENTERS WERE GOING THROUGH THE MOST SIGNIFICANT PHASE OF WHAT WE CALL SCRS, THE SERVICE CENTER REPLACEMENT SYSTEM. UNDER SCRS VIRTUALLY ALL THE BASIC HARDWARE AT THE CENTERS AND NCC WAS REPLACED. IN ADDITION, WE SHIFTED OUR PROGRAMMING LANGUAGE SO THAT WE WOULD BE ABLE TO WRITE NEW PROGRAMS MORE EASILY AND EFFICIENTLY.

AS WITH ANY UNDERTAKING OF THIS SIZE A LARGE NUMBER OF TRANSITIONAL PROBLEMS APPEARED. THERE IS SIMPLY NO WAY TO AVOID A SHAKEDOWN PERIOD FOR WORKING OUT THE BUGS IN THE EQUIPMENT, THE SOFTWARE, AND THE PROCEDURES FOR OPERATION OF ANY NEW SYSTEM.

WHILE THERE IS NO DIRECT RELATIONSHIP BETWEEN THE SCRS CONVERSION AND THE PROBLEMS AT PSC, THE CENTER WAS UNDOUBTEDLY FOCUSING ON THE VERY LARGE CHANGE THAT WAS GOING ON AROUND THEM AND NOT THE SEEMINGLY MINOR PROBLEM OF A DELAY IN THE POSTING OF ONE TAPE.

ALSO, BECAUSE OF SOME PROBLEMS ASSOCIATED WITH THE CONVERSION PROCESS, OUR INVENTORIES OF TAXPAYER CORRESPONDENCE AND ADJUSTMENTS INCREASED DURING THIS PERIOD. THIS TEMPORARY INCREASE IN INVENTORIES ALSO TENDED TO MASK THE PROBLEM FROM THOSE WHO HANDLE THESE ADJUSTMENT ISSUES.

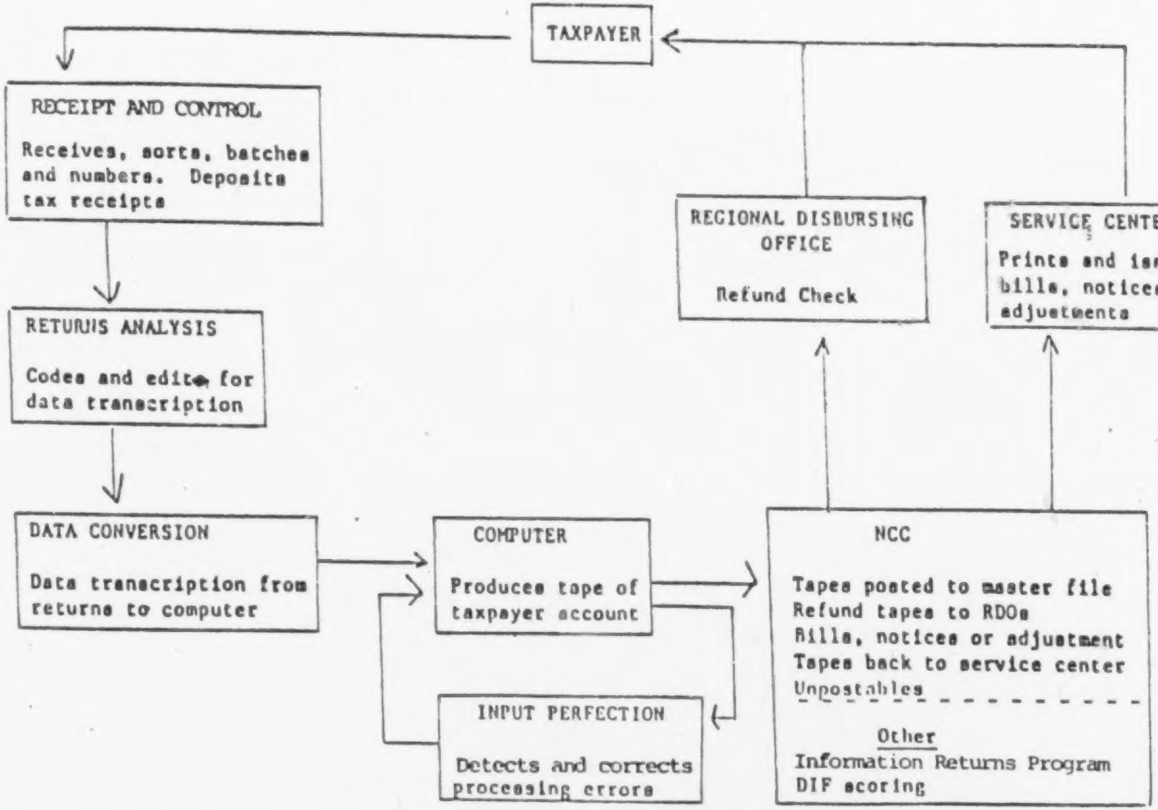
CONCLUSION

AGAIN, MR. CHAIRMAN, LET ME PUBLICLY APOLOGIZE TO THOSE TAXPAYERS WHO SUFFERED FRUSTRATION AND INCONVENIENCE BECAUSE OF OUR FAILURE TO PROPERLY CREDIT THEIR TIMELY PAYMENTS. WE ARE SORRY THIS HAPPENED, AND ARE WORKING TO SEE THAT IT DOES NOT HAPPEN AGAIN.

I WOULD BE PLEASED TO TRY TO ANSWER ANY QUESTIONS THAT THE MEMBERS OF THE COMMITTEE MAY HAVE.

Attachment 1

SERVICE CENTER PIPELINE


TAXPAYER
RECEIPT AND CONTROL
Receives, sorts, batches and numbers. Deposits tax receipts
RETURNS ANALYSIS
Codes and edits for data transcription
DATA CONVERSION
Data transcription from returns to computer
COMPUTER
Produces tape of taxpayer account
INPUT PERFECTION
Detects and corrects processing errors
NCC
Tapes posted to master file
Refund tapes to RDOs
Bills, notices or adjustment
Tapes back to service center
Unpostables
Other
Information Returns Program
DIF scoring
REGIONAL DISBURSING OFFICE
Refund Check
SERVICE CENTER
Prints and issues bills, notices, or adjustments

Attachment 2

Based on interviews of Philadelphia Service Center managers and operating personnel, information provided from National Computer Center logs and journals, and available Philadelphia Service Center documentation, the following chronology of events has been developed. This sequence of events shows (1) a widespread breakdown in communications, (2) the lack of a system to bring tape replacement problems to management's attention, and (3) the lack of effective management oversight and involvement.

10/10/84 WED NCC received Reel 301682 FTD-77-03 from PSC for processing. Before the unprocessed reel was sent to NCC on 10/10/84, the Accounting Branch established a control over the number of items on the tape and amount to be posted in accordance with Internal Revenue Manual and local procedures.

10/12/84 FRI NCC could not process the reel of FTD payments because of a "header problem". (A header is a coded instruction telling the computer what to do with the information on the tape.) NCC called the Computer Support Section at PSC and asked a GS-9 scheduler to provide a replacement tape. There is no record of this request at PSC; the GS-11 Supervisor of the Scheduling Unit was not notified, and the GS-12 Chief of the Computer Support Section was not notified.

10/16/84 TUE When the NCC weekly accounting report of tapes processed was received, the PSC Data Control Unit in the Accounting Branch identified the unprocessed reel because it had not posted. The PSC Data Control Unit's local procedure is to follow-up on such discrepancies if they are not corrected by the next weekly accounting report.

10/19/84 FRI NCC returned the unprocessed reel to PSC. This tape is normally not used to create the replacement tape. A replacement tape should be created from original source tapes, and should be shipped to NCC by the time the original reel is returned.

A PSC GS-4 Tape Library Technician acknowledged receipt on the same day.

The Office of the Director, PSC, received from NCC the standard weekly input report which identified this reel as not processed. Normally, the PSC Director forwards this report to the GS-14 Computer Services and Accounting Division Chief who forwards it to the GS-13 Computer Services Branch Chief. This particular report was received by PSC but is missing from the Branch Chief's file. There is no record of management's reaction to the report.

10/23/84 TUE The NCC weekly accounting report shows that the tape did not process. The GS-7 Reports Technician called NCC Production Control (Accounting function) about the status of the unreconciled item. NCC reportedly advised the Technician that the tape was in process and the Technician informed the GS-9 Data Control Unit supervisor. No further action was taken by Accounting at this time. Further, no action was taken in response to successive weekly accounting reports.

11/19/84 MON NCC called the Computer Support Section at PSC and asked a GS-9 Scheduler (not the same one who was originally called on 10/12) to provide a replacement tape. There is no record of this request at PSC; the Scheduling Unit Supervisor was not notified; and, the Computer Support Section Chief was not notified. Also, the Scheduler does not remember receiving this call.

11/20-11/27 The Data Control Unit received a monthly accounting balance report (See Note) and determined that the unprocessed tape still did not post. A Reports Technician contacted the NCC Accounting function who informed the Technician that the original tape was returned to PSC. The Data Control Unit Superviser notified the GS-9 FTD and Reports Unit Supervisor.

Note: This was the Report on U.S. Internal Revenue Receipts - Service Center Transaction Reports which is generated by NCC. It is shipped in a tape format to PSC where it is printed out by Computer Services. It contains the total dollar amounts processed by NCC for an entire month in various categories; e.g., total withheld income tax and FICA collections. Data Control Unit balances against this report by totalling the amounts of the dollars contained on the reels shipped to NCC in the appropriate category.

11/27/84 TUE The FTD and Reports Unit Supervisor, the Data Control Unit Supervisor and the Reports Technician visited the Computer Support Section Chief to determine the status of the replacement tape. The Section Chief found the reel in the tape library. The Section Chief gave the tape to the GS-11 Scheduling Supervisor.

11/28/84 WED The GS-13 Accounting Branch Chief was told by the FTD and Reports Unit Supervisor of the situation. The FTD and Reports Unit Supervisor also visited the Computer Support Section to follow-up on the status of the tape. The Scheduling Supervisor had taken no action.

11/28/84 WED	An Acting Accounting Branch Chief signed the October reconciliation report (See Note) which was the first accountability report to identify the unprocessed tape at the Branch level and above. This report identified the $300 million imbalance as a 'reconciled' difference. By this identification the report indicates that action to correct the imbalance has been taken. If the amount is 'unreconciled' the report must be signed by the Director of the Service Center. Note: This was the Reconciliation of Subsidiary Accounts External to RACS (Form 3997) which is a monthly trial balance of the general ledger and in-house summary of the subsidiary ledger. Data is generated by the Reciprocal Accounting Control System (RACS) and supplied from all Accounting Units. The information is consolidated and the report prepared by the Journal and Ledger Unit. This report is forwarded to the Regional and National Offices for review and for preparation of consolidated accounting reports.
12/03 - MON 12/04/84 TUE	The Resident Program Analyst created a replacement tape. Because the source tapes were not available to prepare a replacement tape, the Resident Program Analyst took the extraordinary action of preparing a header on a new tape and copying the unprocessed tape onto the new tape. The source tapes which have a normal retention of four weeks had been routinely scratched.
12/05/84 WED	NCC received replacement reel 315589 for processing. The PSC GS-13 Accounting Branch Chief stated that in early December the GS-14 Quality Assurance and Management Services Division Chief and the GS-13 Acting Computer Services and Accounting Division Chief were notified of a problem with an FTD tape posting. This is the first indication of Division level management becoming aware of the problem. The discussion was described as an informal mention of the matter. The parties to the discussion recall that their impression was that the necessary corrective action was underway.
12/06/84 THU	NCC could not process replacement reel 315589 because the item and dollar amounts on the tape did not balance to the data control item and dollar amounts.
12/07 - 12/14/84 FRI	During this period, there were discussions between the PSC Resident Program Analyst and the NCC Resident Program Analyst to explore the possibility of perfecting the tape or using the tape with the imbalance.

12/10/84	MON	NCC called the Computer Support Section at PSC, and asked a GS-6 Scheduling Technician to provide a second replacement tape. There is no record of this request at PSC; the Scheduling Unit Supervisor was not notified, and the GS-12 Chief, Computer Support Section was not notified. The Scheduling Technician denied that the request was made.
12/14/84	FRI	NCC returned the replacement reel.
12/17/84	MON	PSC received the replacement reel.
12/17/84	MON	The PSC Office of the Director received the NCC weekly report of unprocessed tapes. The Director sent it to the Computer Services and Accounting Division Chief who sent it to both the Computer Services and the Accounting Branch Chiefs. There is no indication that management reacted to the unprocessed tape. This NCC report would not, and did not, identify the unprocessed tape as a replacement tape.
		About this time, during the preparation of the November monthly reconciliation report (Form 3997) in the Accounting Branch, the GS-9 supervisor of the Journal and Ledger Unit notified the FTD and Reports Unit supervisor of the unprocessed reel. The FTD and Reports supervisor advised that the problem was being solved and no further action was necessary.
12/23 - 12/24/84	SUN MON	The PSC Resident Program Analyst received the replacement tape and determined that he could take no further action to correct the imbalance. No additional work was done.
		Sometime after this, the FTD and Reports Unit Supervisor identified 1,362 missing accounts and $7.5 million in FTD's.
12/24/84	MON	The Computer Services Branch Chief, who has responsibility for ensuring that replacement tapes are timely processed, advised that just before December 25 either the Division Chief or Accounting Branch advised him of the problem for the first time. Also, near the end of December, the Computer Services Branch Chief and the GS-13 Receipt and Control Branch Chief switched positions.
12/26/84	WED	The Accounting Branch Chief signed the November monthly reconciliation report (Form 3997). This was the second report identifying the unprocessed tape. There was no indication that the Branch Chief either noticed or reacted to the unprocessed October tape. The unprocessed tape should have been identified as an unreconciled difference and the report should have been signed by the Director, PSC.

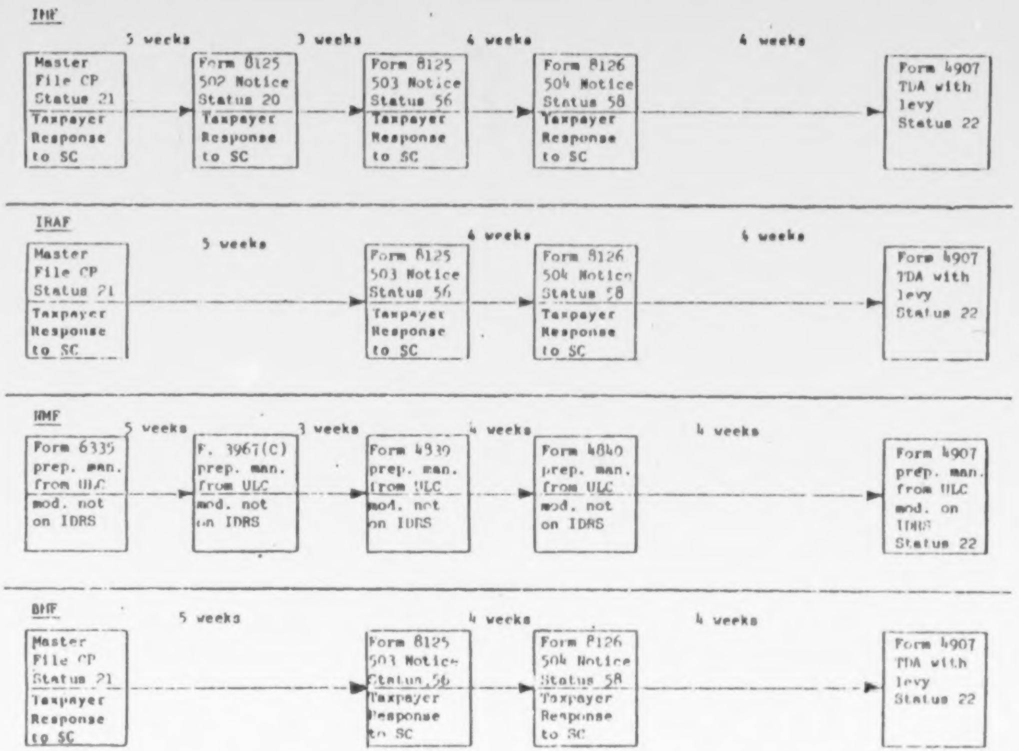
01/03/85 WED	PSC Resident Program Analyst called NCC and advised that he would be sending the replacement reel back. The Assistant Director PSC advised that, in an early January daily production meeting, the unprocessed tape was mentioned as a problem that was under control. Specific details of the problem such as the age of the tape were not provided to the Assistant Director.
01/08/85 TUE	NCC received the replacement tape.
01/10/85 THU	The FTD and Reports Unit Supervisor began getting calls from banks about unposted payments. The Accounting Branch Chief was notified of this activity.
01/12/85 SAT	NCC was unable to process the tape for the same imbalance condition that existed on 12/06/84.
01/14/85 MON	Prompted by phone calls from banks, the FTD and Reports Unit Supervisor notified the Accounting Branch Chief in writing of the continuous problem with the unprocessed tape.
01/15/85 TUE	The Director, PSC was advised of the situation.
01/14/85 MON thru 01/17/85 THU	A second Resident Program Analyst investigated and confirmed the tape discrepancy which was previously identified on 1/12/85.
01/18/85 FRI	NCC discussed the imbalance with the PSC Resident Program Analyst who coordinated with the FTD and Reports Unit Supervisor. The FTD and Reports Unit Supervisor, with approval from the National Office Cash Management Section, verified the imbalance to be accepted. The tape was test run. In Cycle 8504 (January 20-26, 1985) the imbalance tape posted. In Cycle 8506 (two weeks later) the 1,362 remaining accounts identified by the FTD and Reports Unit Supervisor posted to the Master File at NCC.

NOTICE STREAM

1984

Timing of Balance Due Notices

(Supersedes Exhibit 5(18)20-2)


IMF
5 weeks
3 weeks
4 weeks
4 weeks
Master File CP Status 21
Taxpayer Response to SC
Form 8125 502 Notice Status 20
Taxpayer Response to SC
Form 8125 503 Notice Status 56
Taxpayer Response to SC
Form 8126 504 Notice Status 58
Taxpayer Response to SC
Form 4907 TDA with levy Status 22
IRAF
5 weeks
4 weeks
4 weeks
Master File CP Status 21
Taxpayer Response to SC
Form 8125 503 Notice Status 56
Taxpayer Response to SC
Form 8126 504 Notice Status 58
Taxpayer Response to SC
Form 4907 TDA with levy Status 22
NMF
5 weeks
3 weeks
4 weeks
4 weeks
Form 6335 prep. man. from ULC
mod. not on IDRS
F. 3967(C) prep. man. from ULC
mod. not on IDRS
Form 4839 prep. man. from ULC
mod. not on IDRS
Form 4840 prep. man. from ULC
mod. not on IDRS
Form 4907 prep. man. from ULC mod. on IDRS Status 22
BMF
5 weeks
4 weeks
4 weeks
Master File CP Status 21
Taxpayer Response to SC
Form 8125 503 Notice Status 56
Taxpayer Response to SC
Form 8126 504 Notice Status 58
Taxpayer Response to SC
Form 4907 TDA with levy Status 22

1985

Exhibit 5(18)20-2

Timing of Balance Due Notices and TDA Cycles

(Reference: IRM 5(18)21.1)

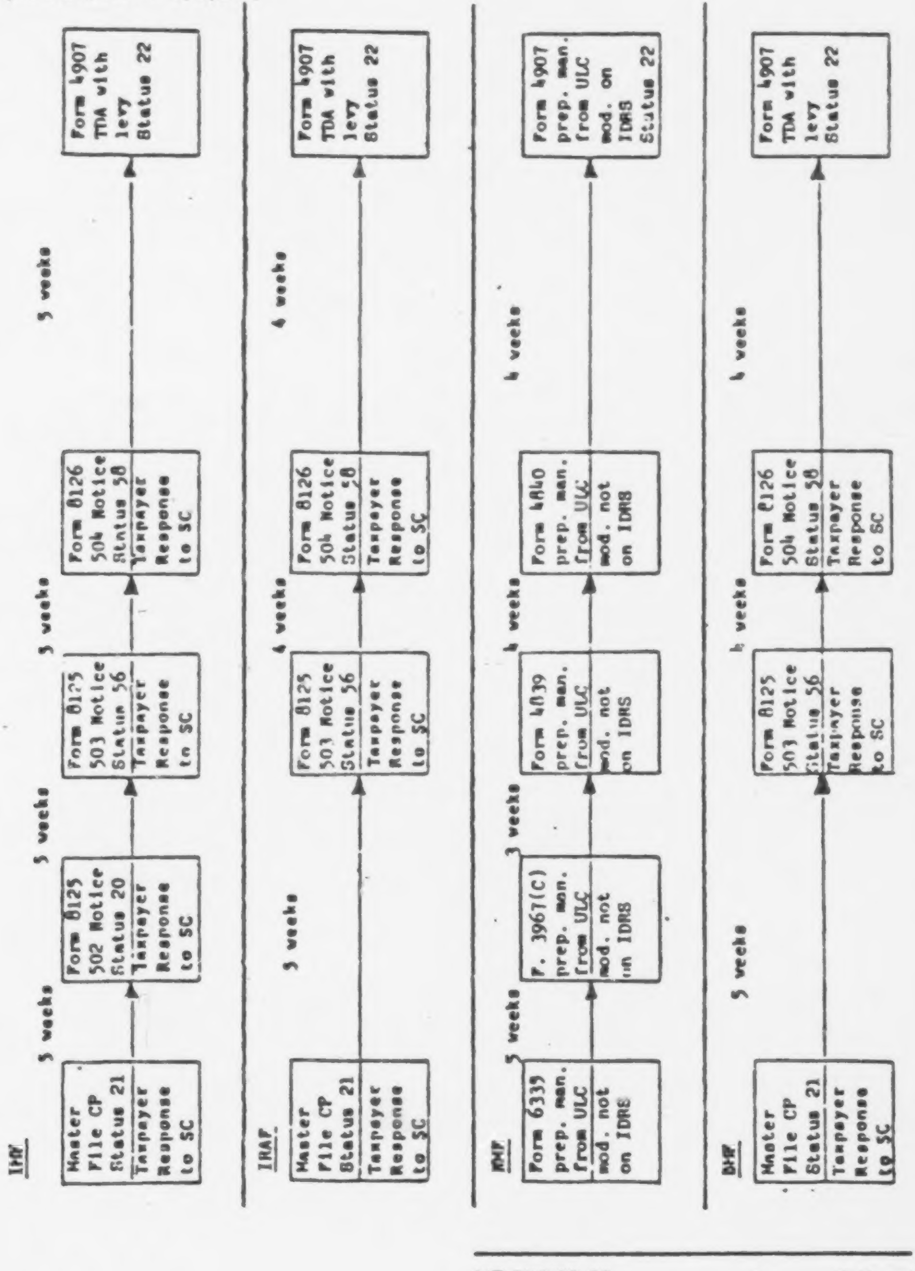
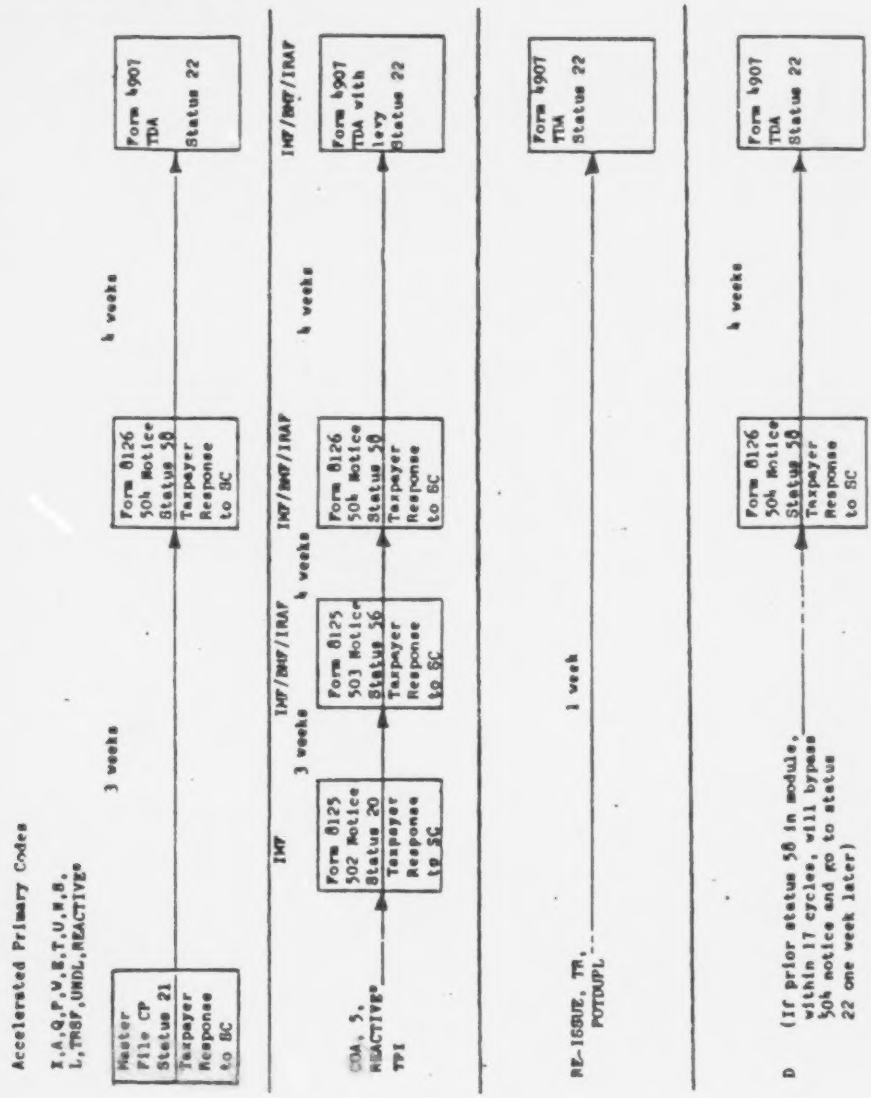

IMF
Master File CP Status 21
Taxpayer Response to SC
5 weeks
Form 8125 502 Notice Status 20
Taxpayer Response to SC
5 weeks
Form 8125 503 Notice Status 56
Taxpayer Response to SC
5 weeks
Form 8126 504 Notice Status 58
Taxpayer Response to SC
5 weeks
Form 4907 TDA with levy Status 22
IRAF
Master File CP Status 21
Taxpayer Response to SC
5 weeks
Form 8125 503 Notice Status 56
Taxpayer Response to SC
4 weeks
Form 8126 504 Notice Status 58
Taxpayer Response to SC
4 weeks
Form 4907 TDA with levy Status 22
NMF
Form 6335 prep. man. from ULC
mod. not on IDRS
5 weeks
F. 3967(C) prep. man. from ULC
mod. not on IDRS
3 weeks
Form 4839 prep. man. from ULC
mod. not on IDRS
4 weeks
Form 4840 prep. man. from ULC
mod. not on IDRS
4 weeks
Form 4907 prep. man. from ULC mod. on IDRS Status 22
BMF
Master File CP Status 21
Taxpayer Response to SC
5 weeks
Form 8125 503 Notice Status 56
Taxpayer Response to SC
4 weeks
Form 8126 504 Notice Status 58
Taxpayer Response to SC
4 weeks
Form 4907 TDA with levy Status 22

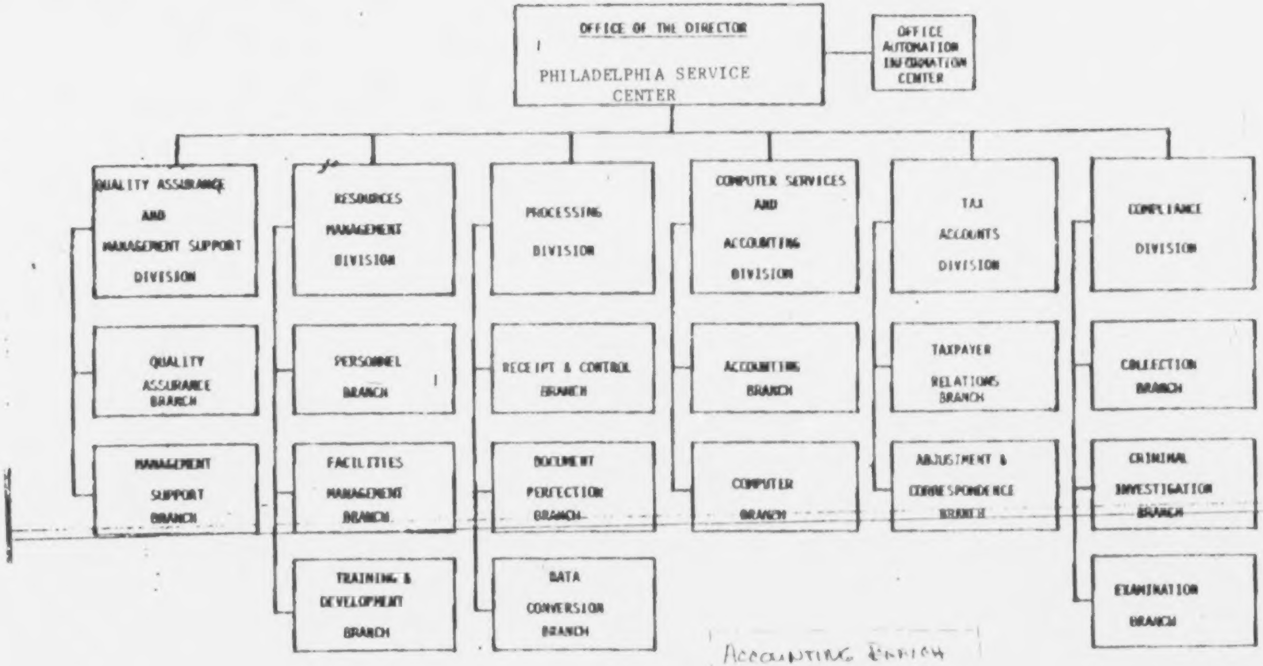
Exhibit 5(18)20-2 Cont. (1)

Timing of Balance Due Notices and TDA Cycles

(Reference: IRM 5(18)20)



Attachment 4

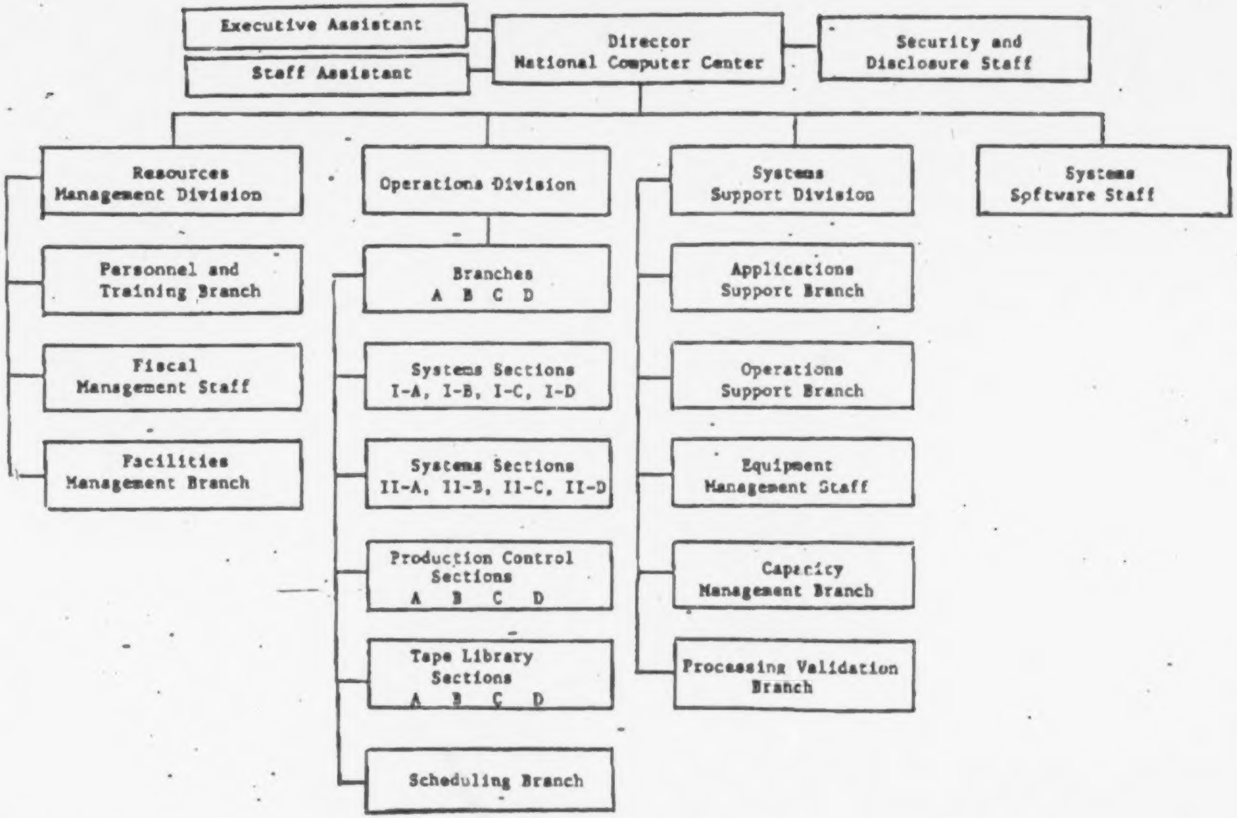

OFFICE OF THE DIRECTOR
PHILADELPHIA SERVICE CENTER
OFFICE AUTOMATION INFORMATION CENTER
QUALITY ASSURANCE AND MANAGEMENT SUPPORT DIVISION
QUALITY ASSURANCE BRANCH
MANAGEMENT SUPPORT BRANCH
RESOURCES MANAGEMENT DIVISION
PERSONNEL BRANCH
FACILITIES MANAGEMENT BRANCH
TRAINING & DEVELOPMENT BRANCH
PROCESSING DIVISION
RECEIPT & CONTROL BRANCH
DOCUMENT PERFECTION BRANCH
DATA CONVERSION BRANCH
COMPUTER SERVICES AND ACCOUNTING DIVISION
ACCOUNTING BRANCH
COMPUTER BRANCH
TAX ACCOUNTS DIVISION
TAXPAYER RELATIONS BRANCH
ADJUSTMENT & CORRESPONDENCE BRANCH
COMPLIANCE DIVISION
COLLECTION BRANCH
CRIMINAL INVESTIGATION BRANCH
EXAMINATION BRANCH

ACCOUNTING BRANCH
Journal Ledger Unit
Bookkeeping Unit
Data Control Unit
Entity Control Unit
Accounts A Unit
Accounts B Unit
Unidentified Unit
FTD Reports Unit

COMPUTER BRANCH
Support Section
Operation Section
Specialist Section
Admin. Services Section

Attachm II

NATIONAL COMPUTER CENTER
CURRENT ORGANIZATIONAL STRUCTURE



Chairman PICKLE. Thank you, Commissioner. I am glad that you gave us a full statement and walked through the statement with us so we would have it for the record, and have a better understanding of what happened.

I am sure each of us have questions to ask of you. I will yield first to Congressman Schulze, whose City of Philadelphia is involved, for the first questions he might have.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, Commissioner Egger, for your testimony.

My office made phone calls and corresponded with a variety of people, trying to get some background and information on this problem. There were those who evidenced concern that their names not be used for fear of retaliation. Now, I know and you know that that will not happen. But I would like your public assurance that anyone who testifies or gives us information on this will not be subject to any kind of harassment.

Mr. EGGER. Of course. Absolutely, Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Commissioner.

Now I have so many questions, let me start with one that relates to the latter part but it jumped out at me as you testified.

I received a letter from a well-known and large Philadelphia concern, Rohm & Haas, who apparently was involved in this problem. I would like to quote a portion of that letter.

> Our difficulties with the 3-quarter payroll tax deposits which were lost by the IRS Service Center caused more problems than normal because of the manner in which they offset the alleged shortage against the overassessment of corporate income taxes.

Apparently, to remedy the shortfall there had been an overassessment of corporate taxes, and that money was taken to satisfy this. I saw no mention of that in your testimony.

Is this the only case where that happened?

Mr. EGGER. No, Mr. Schulze, this is not the only case. Unfortunately, there are——

Mr. SCHULZE. When we talked about those limited number, five, that had been levied, are we talking about only five accounts levied, or were there others who had other financial assets available which were taken to satisfy this levy?

Mr. EGGER. Yes. I don't know how many there may have been, but I am sure that that one taxpayer was not the only one.

Mr. SCHULZE. So there could have been hundreds of these?

Mr. EGGER. I can't tell you exactly how many.

Mr. SCHULZE. I would hope that you will get that information for us for the record.

Mr. EGGER. Yes.

[The information follows:]

NUMBER OF TAXPAYERS HAVING FINANCIAL ASSETS AVAILABLE WHICH WERE TAKEN TO SATISFY A PREVIOUSLY ALLEGED OVERASSESSMENT

An initial analysis of all affected accounts indicates that 893 taxpayers had credits in other accounts which were applied to satisfy the balance due created by the failure to timely post these payments. Philadelphia has adjusted these accounts, as necessary, to assure that any erroneous penalty and interest charges are eliminated and that refunds are issued as appropriate.

Mr. EGGER. Mind you, that these were simply offsets. They didn't constitute seizures.

Mr. SCHULZE. Not according to this letter. I will give you a copy of it, and it will be put in full in the record.

[The letter follows:]

INDEPENDENCE MALL WEST PHILADELPHIA PA 19105 U.S.A. TELEPHONE (215) 592 3000

ABLE ADDRESS ROHMHAAS
LLX 845-247

ROHM
HAAS
COMPANY

March 8, 1985

The Honorable Richard T. Schulze
2201 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

ATTENTION: Diane Berardocco

Dear Representative Schulze:

We are writing to you to relate our experiences with the Internal Revenue Service Center regarding the recent problems they had with Payroll Taxes and to set forth the problem areas as we see them.

January 7, 1985 was the first date that we received notice from the IRS Service Center that there was a shortage of our third quarter 1984 tax deposits. We received two documents. The first document, indicated that we have an overassessment of $4,570,462 from our corporate income tax (Form 1120). **The IRS Service Center deducted $2,314,314.16 from the overassessment to satisfy the alleged shortage of deposits** of payroll taxes for the quarter ending September 30, 1984.

The second document, detailed our payroll tax payments for the 3rd quarter 1984 and the $2,314,314.16 as other credits and payments. The net result of the notice indicated a refund of $32,595.97. This refund was calculated by the IRS as follows:

Payroll Taxes Paid/Deposited and Lost by IRS	$2,173,065.33
Penalty charged by IRS	108,652.86
TOTAL	2,281,718.19
Amount of IRS 1120 overassessment offset	2,314,314.16
DIFFERENCE - Amount to be refunded	$ 32,595.97

Our difficulties with the third quarter payroll tax deposits which were lost by the IRS Service Center caused more problems than normal because of the manner in which they offset the alleged shortage against the overassessment of corporate income taxes. When we asked an IRS employee why we were not informed sooner of these alleged shortages, he said that as long as the IRS Service Center has a source of funds from which to deduct taxes they are not required to inform the company of the underpayment.

The refund of $32,595.97 was returned to the IRS on January 28, 1985 with our letter, by certified mail. **To date we have not received any reply from the IRS on this matter nor have we received a letter of aplology which has been sent to other companies in the Philadelphia District. Our experience is that this type of situation with the IRS Service Center is commom. In the** past we have received many notices of late or missed payments. In 95% of the cases our records are correct and the IRS Service Center is wrong. However, the burden is on us to supply evidence to the IRS Service Center so that they can correct their mistakes. The waste of time, and the effort to resubmit data to prove that what we did originally was correct is costly and frustrating. We would hope that someone would take the time and effort to correct this situation.

Rohm and Haas Company would like to make it perfectly clear that these problems relate to their experiences with the IRS Service Center and with computer related incidents and the lack of communication between the Philadelphia Service Center and the Philadelphia District Offices.

By no means is this a criticism of the Internal Revenue Field Agents who are examining and have examined Rohm and Haas Company's Federal Income Tax Returns, Form 1120.

The IRS agents from the Philadlephia District field office in our experience have conducted their examinations in a professional, competent, mannerly, albeit, adversary manner.

In fact within the last week one of the agents currently assigned to examine our federal income tax return, Mr. John Stickel, successfully resolved a problem we had with the Service Center which dates back to 1982. Mr. Stickel made several trips to the Service Center over the past six months in order to resolve this issue which involved a discrepancy in interest amounting to more than $250,000.

We trust this puts the problem in perspective and demonstrates where the need for improvement is required.

If you have any questions or require additional information, please do not hesitate to contact us. Copies of the documents referred to in this letter are available, if you should decide you want them. Kindly let us know. Thank you.

Sincerely,

Thomas C. Friel

Thomas C. Friel
Manager of Corporate Taxes

Mr. SCHULZE. I might say, we are talking about millions of dollars in this instance, of course. It is a large amount of money.

> To date, we have not received any reply from the IRS on this matter; nor have we received a letter of apology which has been sent to other companies in the Philadelphia district. Our experience is that this type of situation with the IRS Center is common.

The date of the letter is March 8, 1985. I just received it today. It sort of flies in the face of your testimony, Mr. Commissioner.

Here is a very large account which has not been satisfied, which, it seems to me, is fairly obvious. And it is one that I hope you would look at right away and see that it is taken care of.

Now, Mr. Commissioner, what is a GS-9 scheduler?

Mr. EGGER. The GS-9 obviously is the grade that that person holds, and he does the scheduling of the variety of work procedures in the Service Center.

Mr. SCHULZE. What kind of background or what kind of training or knowledge does a GS-9 scheduler have to have?

Mr. EGGER. I am unable to give you that directly. I would be happy to find someone to answer that.

Mr. SCHULZE. If you would, yes.

Mr. EGGER. He has to be able to read the computer information and know what tapes are to go where and thereby schedule the tapes.

Mr. SCHULZE. He schedules computer runs? I am not extremely knowledgeable about computers, so I may ask some questions which are obvious.

Mr. EGGER. He schedules the tapes to be run, yes.

Mr. SCHULZE. He schedules the tapes that are to be run on the computer?

Mr. EGGER. When, yes.

Mr. SCHULZE. What is a GS-4 tape library technician?

What is the salary range of a GS-9? Does anyone know that?

Mr. THOMAS. Apparently, there are no GS-9's out there, I say to my colleague.

Mr. EGGER. I think the best thing for me is to give you a schedule together with a job description of each of those instances where you would like us to do that.

[The information follows:]

Information Notice

Department of the Treasury

Internal Revenue Service

Number: 85 - 4

January 30, 1985

Pay Raise - Executive Order 12496

On December 28, 1984, President Reagan signed Executive Order 12496 increasing the rates of pay for Federal employees. In the Internal Revenue Service, the increases were effective on January 6, 1985, and were reflected in the January 28 paychecks.

For your information, the new General Schedule pay table is printed on the reverse side of this Information Notice.

Performance Management and Recognition System (former Merit Pay) employees rated Fully Acceptable or above will receive the full general increase as prescribed by the Office of Personnel Management. Employees rated Marginally Acceptable will receive one-half the general increase. Employees rated Unacceptable are not entitled to an increase.

Senior Executive Service Schedule

ES - 1	$ 61,296	ES - 4	$ 68,700
ES - 2	$ 63,764	ES - 5	$ 70,500
ES - 3	$ 66,232	ES - 6	$ 72,300

Robert L. Buono
Acting Director, Personnel Division

Distribution:
FILE 2 - ALL EMPLOYEES

SCHEDULE 1--GENERAL SCHEDULE

	1	2	3	4	5	6	7	8	9	10
GS-1	$9,339	$9,650	$9,961	$10,271	$10,582	$10,764	$11,071	$11,380	$11,393	$11,686
2	10,501	10,750	11,097	11,393	11,521	11,860	12,199	12,538	12,877	13,216
3	11,458	11,840	12,222	12,604	12,986	13,368	13,750	14,132	14,514	14,896
4	12,862	13,291	13,720	14,149	14,578	15,007	15,436	15,865	16,294	16,723
5	14,390	14,870	15,350	15,830	16,310	16,790	17,270	17,750	18,230	18,710
6	16,040	16,575	17,110	17,645	18,180	18,715	19,250	19,785	20,320	20,855
7	17,824	18,418	19,012	19,606	20,200	20,794	21,388	21,982	22,576	23,170
8	19,740	20,398	21,056	21,714	22,372	23,030	23,688	24,346	25,004	25,662
9	21,804	22,531	23,258	23,985	24,712	25,439	26,166	26,893	27,620	28,347
10	24,011	24,811	25,611	26,411	27,211	28,011	28,811	29,611	30,411	31,211
11	26,381	27,260	28,139	29,018	29,897	30,776	31,655	32,534	33,413	34,292
12	31,619	32,673	33,727	34,781	35,835	36,889	37,943	38,997	40,051	41,105
13	37,599	38,852	40,105	41,358	42,611	43,864	45,117	46,370	47,623	48,876
14	44,430	45,911	47,392	48,873	50,354	51,835	53,316	54,797	56,278	57,759
15	52,262	54,004	55,746	57,488	59,230	60,972	62,714	64,456	66,198	67,940
16	61,296	63,339	65,382	67,425	69,468*	71,511*	73,554*	75,597*	77,640*	
17	71,804*	74,197*	76,590*	78,983*	81,376*					
18	84,157*									

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* The rate of basic pay payable to employees at these rates is limited to the rate payable for level V of the Executive Schedule, which is $68,700.

☆U.S. GOVERNMENT PRINTING OFFICE: 1985-461-499:10299

Job descriptions for GS-4 tape library technician
and GS-9 scheduler.

The job descriptions are attached.

NON-PAINT FUNCTIONAL CODE < >

Classification: GS-335-4
Classification Title: Computer Clerk
Organizational Title: Magnetic Media Librarian
Location: IRS Service Centers
FLSA Status: Non Exempt

Duties and Responsibilities Approved: 1/19/82
(Date)

/s/ Richard Marsh
Director, Systems Support Division

Classification Approved: 5/26/82
(Date)

/s/ Paul D. Howland
Chief, Position Management Branch

I certify that this is an accurate statement of the major duties and r
sibilities of this position and its organizational relationships, and that
position is necessary to carry out government functions for which I am resp
This certification is made with the knowledge that this information is to b
for statutory purposes relating to appointment and payment of public funds,
that false or misleading statements may constitute violations of such statu
or their implementing regulations.

S Corney 11/2/
(Signature of immediate supervisor) (Date)

All other levels of supervision which propose or approve official stat
of duties and responsibilities are attesting to the same effect as the imme
supervisor.

The classification of this position may be appealed. Published Standa
or other information upon which the classification is based may be reviewed.
Information may be obtained from your supervisor or your Personnel Office.

Magnetic Media Librarian
GS-335-4

SPD 91042N

DUTIES

The incumbent of this position is responsible for the receipt, storage, accountability, issuance, controlling, and shipping of magnetic media storage devices for computer processing. Works rotating shifts as required and performs the following duties:

- Receives production package from Scheduling Aides to prepare job set-ups for Operations.

- Assigns and pulls tapes in accordance with production package, affixes labels showing job run file identification, creation date, retention period etc., and places on a cart in sequential processing order.

- Reviews production set-ups for completeness, ~~numbers and controls all charge-outs,~~ and initials review stamp prior to physically transporting job set-up carts to staging area. Pulls special tapes for programmers and operators, and secures appropriate charge-outs. Pen & Chng

- Receives all magnetic media after production. Appropriate media is extracted for shipping or refiling in numerical library system. Maintains and controls charge-out files and various logs for each media previously released to Operations for processing.

- Maintains accurate accounting of magnetic storage media through use of computer-generated listings and updates to the master library system. Checks in each media returned from operations against the charge-out F3220 and reconciles discrepancies.

- Corrects library system error registers and unpostable conditions by preparing F3220 to input the appropriate transaction codes through transcription.

- Assembles, verifies identifications against appropriate documents, ~~prepares way bills and receipts,~~ and addresses shipments of magnetic media and film for air and surface shipments. Pen & Chng

- Controls all daily media transactions released to Transcription to be used by incumbent to update the library master file. Through STAR 1100 System, updates master file to reflect proper media identification and location. Pen & Chng

- Participates in periodic magnetic media inventory by physically locating and verifying the presence of all magnetic media listed in the inventory, searching for lost or misfiled media, and extending search outside the library if necessary in order to find media which may have been improperly removed.

- Maintains control records and control logs for master tapes, prepares automatic scratch notifications for users and participates in the maintenance and control of back up files in a security vault.

- Performs tape cleaning verification and repair functions, erases tape contents on a degausser and maintains logs of actions taken, errors corrected, length of tape, date, condition of tape and need to replace tape if condition indicates potential problems.

- Requisitions, numbers, controls and enters new magnetic media into master library system.

- Replaces and disposes of unuseable and/or damaged media preparing required documentation.

- May be required to control access to the tape library by maintaining restricted access registers, checking authorized access lists, and issuing badges in accordance with established security procedures.

- Contacts other computer facilities, postal facilities, and couriers to coordinate, research, and expedite all transmitted media.

- Operates keypunch equipment to prepare cards providing update input for the Computer Library System (CLS).

- Performs other duties as assigned.

Factor 1. Knowledge Required by the Position

- Knowledge of the full scope of library functions, procedures, controls, methods, storage, issue and quality control requirements.

- Knowledge of standard codes and abbreviations and ability to interpret program run sheets and production instructions in order to assemble and set up the appropriate tapes for processing, scratch, retention or back-up.

- Knowledge of the magnetic media inventory and storage system in order to locate missing media during inventory or set up; and the ability to locate, identify, and reinsert those media in the library system.

- Knowledge of shipping procedures by type of carrier, controls, records; methods for preparation and receipt of shipments; and media packing methods to prevent damage and to receive, verify and control incoming shipments, or to note and report shipment discrepancies by number, kind, shipper, or packing method.

- Knowledge of codes and operating procedures in order to punch cards and submit for update of library system by adding, changing, or deleting entries in the inventory; to add or remove labels on the basis of written instructions; to remove and replace media in the library; and to operate film processor, mail handling, cleaner, verifier, degausser, and related equipment.

- Knowledges of security procedures for tape control, badging, and restricted magnetic media library access to maintain physical security integrity of the library.

Factor 2. Supervisory Controls

Work assignments are made by the Library Unit Manager who keeps incumbent informed of changes in policy and procedures. Due to the rotating shift requirements, the incumbent must have the ability to work with little or no supervision. When assigned to other than the normal day shift, must have the ability to coordinate and accomplish the essential library functions to assure smooth transition between shifts. Responsible for the accuracy and timeliness of jobs set up to assure the jobs are ready in time to meet schedules.

Completed work is reviewed for timeliness and acceptability on the basis of production and error reports.

Factor 3. Guidelines

There are relatively few guidelines for each libary function (ADP Handbook, locally written procedures and duty assignments). The combination of written and verbal instructions are easily committed to memory after relatively short experience with their applications. The employee applies the guidelines appropriate to assigned library functions. The guidelines are specific, providing for only minor deviations or tolerances. Conditions which do not fit within the guidelines are referred to the supervisor.

Factor 4. Complexity

The incumbent performs the various functions in the library and adapts to, and applies, appropriate work methods, procedures, and controls. Production and quality levels are maintained throughout rotations among library duties. The employee follows and adapts guidelines for each phase of the work, adjusting sections to quality control, special schedules, and related controls over the magnetic media library.

Factor 5. Scope and Effect

Functions performed in the library cover the receipt, storage, maintenance, shipping and control of magnetic media and quality control. The incumbent of this position is required to perform all those functions as workload requires or on a regular rotating basis. The product of the work is of a service nature which affects the accuracy and timeliness of computer processing in the local and national computer centers and other facilities dependent upon the output for subsequent processing.

Factor 6. Personal Contacts

Contacts are with operators, computer specialists, other clerks and assistants in the local computer center and occasionally in other facilities, in addition to postal and airmail facilities, couriers, and counterparts at other locations.

Factor 7. Purpose of Contacts

To obtain or furnish factual information relating to assigned duties, status of shipments, missing tapes, and similar concerns.

Factor 8. Physical Requirements

The work requires physical exertion such as long periods of standing, lifting, reaching, stooping, pushing carts, and lifting boxes weighing ab 45 pounds.

Factor 9. Work Environment

Work is performed in an environment similar to an office setting. Normal safety precautions are required in the operation of equipment, but there are no unusual risks or hazards involved. The library is usually one large enclosed room housing rows of storage racks. Desks and chairs are not provided for each librarian and personal storage cabinets are limit

IRS SPD No. 91040E
NON-FAINT FUNCTIONAL CODE < >

Classification: GS-335-9
Classification Title: Computer Assistant
Organizational Title: Scheduler/Systems Monitor
Location: IRS Service Centers
FLSA Status: Exempt

Duties and Responsibilities Approved: 1/19/82
(Date)

/s/ Richard Marsh
Director, Systems Support Division

Classification Approved: 5/26/82
(Date)

/s/ Paul D. Howland
Chief, Position Management Branch

I certify that this is an accurate statement of the major duties and respo sibilities of this position and its organizational relationships, and that the position is necessary to carry out government functions for which I am responsi This certification is made with the knowledge that this information is to be us for statutory purposes relating to appointment and payment of public funds, and that false or misleading statements may constitute violations of such statutes or their implementing regulations.

John J. Conroy
(Signature of immediate supervisor) 11-2-8
(Date)

All other levels of supervision which propose or approve official statemen of duties and responsibilities are attesting to the same effect as the immedia supervisor.

The classification of this position may be appealed. Published Standards or other information upon which the classification is based may be reviewed. Information may be obtained from your supervisor or your Personnel Office.

THIS POSITION IS CONSIDERED ESSENTIAL
TO SERVICE [illegible] OPERATIONS. NON-
AVAIL[illegible] [illegible]ICES WOULD
SERI[illegible] [illegible]TIONS.
INCU[illegible] [illegible]ED TO PROVIDE
SERVI[illegible] PERIODS.

Scheduler/Systems Monitor GS-335-9 SPD 91040E

Duties

Incumbent serves as a scheduler/systems monitor in the Service Center, Computer Branch. As such, prepares and monitors daily, weekly, and periodic schedules for a variety of multi-programing computer systems, for the purpose of computing and converting tax data to a variety of media types.

- Receives on-going program additions, deletions and changes from National Office, Computer Services, and processing change notices for incorporation into local processing master schedules.

- Reviews program and product requirements to be installed and scheduled for the upcoming processing year. Identifies existing programs that are changing and those that are being cancelled, in order to determine the hardware and core capacities either required or made available by those changes.

- Identifies the flow, equipment and capacity requirements for new processing requirements, and combines those needs with capacity available and carry over requirements.

- Identifies job interrelationships, provides for dependencies, and reorders job priorities.

- Reviews history files concerning production volumes, processing times, allowances for reruns, lost time and down time in order to relate optimal capacity to practical availability for productive processing.

- Incorporates the preceding with specified frequency of production requirements and develops an operating master schedule for as long as a one-year period.

- Reviews systems change transmittals, identifies change requirements and modifies existing schedules and processing resource allocations affecting one or several production requirements.

- Prepares operating schedules for complex computer systems allowing for multiple dependency processing, data and program contentions/user requirements, and sequencing on a daily, weekly, and periodic basis.

- Prepares schedule run stream according to handbook instructions, making modification or allowances for recent occurrences (failures, program changes) requiring new or temporary procedures. May load schedule through the system executive program.

- Reviews system reports and operator logs to compare scheduled processing with accomplishments, identify processing problems and resolve those associated with control stream, peripheral equipment assignments or data dependency/contention problems.

- Identifies and determines corrective action to be taken in case of individual job failures in circumstances when the prescribed operations procedures will not produce a solution for a multiprocessor or multiprograming computer systems.

- Determines need to reconstruct data base from back-up files, rerun or restart requirements and need to shift run sequencing in order to better align jobs or better apply system utility programs in relation to jobs on the schedules.

- Resolves partial system failures (hardware or software) by providing for revised applications of system operating capabilities in a manner that allows working through or around the problems with reduced capacity, readjusting the system when full operating configuration is restored.

- Ensures restoration of transactions and data bases at a proper restart point after system initialization and recovery routines have been used to resolve error conditions and the system has been reloaded for continuation of operations.

- Works with applications programers and operations personnel to analyze and identify problems with applications, operating systems, or hardware that are difficult to isolate. Suggests methods for sequencing and software/hardware operating configurations to accept new requirements and resolve processing malfunctions, including revised run stream applications, spooling techniques and possible transfer of some jobs to other computer systems.

- Plans, schedules, and directs the transfer of program and/or data files from disk to tape storage, maintains records of programs and data so stored, and schedules restoration/recovery from back-up files when needed for problem solving in subsequent processing.

- Coordinates with and provides assistance to scheduling aides and magnetic media librarians.

Factor 1. Knowledge Required by the Position

-- Knowledge of the interrelationships of computer hardware configurations to plan the distribution of processing requirements for both long term and daily operating schedules, and to analyze and resolve procedural, control language, and equipment assignment and processing problems.

-- Knowledge of program characteristics in terms of input timing and sequences, program and intermediate job data dependencies, shared utility requirements, parallel processing capability in several core partitions and the potential for job delay to structure the sequences and timing of processing schedules which ensure use of capacity and continuous flow of execution within the system.

-- Knowledge of job priority rules and scheduling procedures to align jobs and adjust schedules in accordance with job hierarchy and functional program priorities when resolving and restarting work from processing failures.

-- Knowledge of the system job control language in order to establish standardized job control instructions as part of short or long range schedule preparation, to adjust control decks for daily variations in products, dates, I/O controls and other variations, and to resolve control-related problems.

-- Knowledge of job control language to plan and develop schedules and insert runstream instructions for scheduling work, interpret status of operations at time of failure and to construct hardware/software/runstream links to work with operators and specialists in defining new or revised runstream requirements (including spooling and other shortcutting techniques) for new and revised job processes.

-- Knowledge of the codes, abbreviations and terms used in the system monitoring and control utility program in order to acquire, analyze and resolve problems based on information derived from system monitoring reports and dumps.

-- Detailed knowledge of system hardware and software and how they are interconnected in normal and variable operating conditions for executing applications programs on multiprocessor or multi-program computer systems.

Factor 2. Supervisory Controls

The supervisor assigns computer runs, and objectives and deadlines requirements. Daily and other short term scheduling work is performed on the basis of standing instructions. Most other assignments are received directly from computer operators or programers who encounter processing problems. The employee may also be alerted to actual or potential problems through such sources as system reports and operator, programer or prior shift reports and log notes.

The employee independently performs both long and short term scheduling duties, and identifies the source and nature of problems and resolves them according to standardized or accepted procedures or analyzes problem symptoms and devises solutions that fit the problem and compensate for lost processing. Questions that cannot be answered by analyzing project instructions are discussed with the supervisor or a programer to arrive at a solution or revision to the objectives. The supervisor is normally available to interpret policy and procedure changes, or to resolve conflicting customer requirements when these affect the ability to meet scheduled production.

Completed work is evaluated on the basis of product and objective achievement. Work methods are normally reviewed only when apparently sound processing sequences fail to produce specified output. Finished work and recommendations for procedural changes are also reviewed for technical soundness in consideration toward incorporating new problem solving techniques into general procedures and guidelines.

Factor 3. Guidelines

There are numerous and varied written guidelines such as Internal Revenue Manuals (IRM), directives, program run books, operations handbooks, schedules and standard operating procedures which include equipment specifications, system operating characteristics, timely criteria, and media retention related to the objective, nature and general methods for accomplishing the work. There are frequent changes in the operating, scheduling and program guides. For ongoing work and common failure situations the guides are detailed and specific, although they do provide for some variation to accommodate a number of processing options. For major new requirements and to resolve processing failures that are beyond those covered in the guides, incumbent exercises judgment in extending existing guidelines or developing new techniques and procedures to resolve unusual problem conditions and assure continuity of processing.

Factor 4. Complexity

The work consists of a variety of scheduling and control tasks involving a mix of standardized and flexible methods and procedures in order to plan and execute the manner in which computer programs can be processed through a variety of equipment and software systems in order to achieve processing objectives.

Much of the work involves analyzing and treating a variety of computer processing problems that are complicated by variations in program requirements, unusual system failure situations, reconstructing incomplete processing and providing for continuation of processing in problem situations where less than full system capacity might be available. Incumbent must identify the problem, consider a number of alternatives that include concerns for many programs scheduled for execution in multiple partitions with various dependency considerations. Approaches to problem solutions must be determined by the incumbent based on identification of the nature and severity of the problem and the alternative courses available to resolve it.

Factor 5. Scope and Effect

The work involves scheduling for a large capacity computer system, devising means to schedule and execute new work, and resolving common and unusual operating problems that occur during processing. Results of the work affect the timeliness and accuracy of computer and functional programs and products used in a number of IRS subject matter areas. It also affects the acceptance and dependability of data processing services for those product users. Work in resolving new or unusual problems and work involving planning of revised, more efficient methods to accomplish processing affect the design and efficiency of methods and procedures for established, revised and new applications program processing.

Factor 6. Personal Contacts

Contacts are primarily with data processing personnel in operations and programing in the immediate and related units, National and Regional computer personnel, as well as with product users within IRS and with vendor representatives who maintain, adjust and repair system hardware and internal software.

Mr. SCHULZE. What is a GS-4 tape library technician? Can anyone help me with that?

Mr. EGGER. He would be the technician in the library who keeps track of the tapes there and who would be able to know which tapes are kept where, and so on.

Mr. SCHULZE. Can you tell me about internal training for these kind of people or whether they are expected to know the job when they come in, or how they are taught the job.

Mr. EGGER. There simply isn't anything comparable on the outside, so they have to be trained internally.

Mr. SCHULZE. Can you tell me a little about the training process? I am not after individuals, but if these individuals who, from my reading of the chronology, were trained and knew their jobs and didn't do it, that is one thing; if they were not trained and didn't know what they were doing, that is something else. That seems to me then where the responsibility goes up a little higher.

That is all I want to determine. That is why I ask these questions.

Mr. EGGER. I would be happy to, as I said, deal with it on any individual basis or otherwise.

All I can tell you is that, as a general proposition, we believe that people in those jobs have been given adequate training to be able to do the jobs correctly.

Mr. SCHULZE. But you have no idea how much training a GS-9 scheduler receives?

Mr. EGGER. I don't know that, no, sir.

Mr. SCHULZE. Or what he normally has?

But you will provide it?

Mr. EGGER. Yes, we will.

Mr. SCHULZE. I would like to know whether there is a training program for them; whether the individuals involved with this had completed the regular training program; and whether it was their first day on the job or whether they had been there a while.

[The information follows:]

LEVEL OF TRAINING FOR GS-4 TAPE LIBRARY TECHNICIAN AND GS-9 SCHEDULER

Computer librarians are selected competitively under the Service Center Labor-Management Agreement and trainees receive informal on-the-job training from the unit supervisor or an experienced librarian in the key tasks required for the position. Formal training for librarians on the new Service Center Replacement System [SCRS] was conducted in December 1983. In addition, a new on-the-job training program for librarians is currently being developed by the Philadelphia Service Center.

Computer schedulers are selected competitively under the Service Center Labor-Management Agreement, in most instances by promotion actions from within the Computer Branch itself. Trainees receive informal on-the-job training from the unit supervisor or an experienced scheduler in the key tasks they are to perform. Schedulers attended five training classes for orientation on SCRS between July 1983 and December 1984.

One-week training sessions for schedulers began in February 1985 at the Brookhaven Service Center and the forecast scheduler at Philadelphia has attended. The remaining three schedulers and the unit manager are scheduled to attend classes in April and May 1985.

Mr. SCHULZE. Now, something else I don't know anything about is a header on a tape. Can somebody tell me about the header on a tape?

Mr. EGGER. Well, the header is simply that part of the tape which tells the computer what is going to follow on the tape and how it is to be recorded, and it is necessary in order for the information that follows the header to be properly recorded, so each—in fact, it is instructions to the computer.

Mr. SCHULZE. What physically is a header—I would picture separate tape put over this tape; is that correct?

Mr. EGGER. It is the lead part of the tape.

Mr. SCHULZE. So it is part of the tape; it is not a separate tape?

Mr. EGGER. That is correct.

Mr. SCHULZE. Not a separate portion of the tape.

Is the information on the header put there first or last?

Mr. EGGER. I am sorry. I didn't hear all your question.

Mr. SCHULZE. As I read the chronology, it seems to me the problem was with the header.

Mr. EGGER. Yes.

Mr. SCHULZE. Not the tape.

Mr. EGGER. That is correct.

Mr. SCHULZE. The tape apparently was fine.

Mr. EGGER. That is correct.

Mr. SCHULZE. This was a header problem. How long is a header and what does it say and do we have a printout of what the header says and what does that tell the other computers?

It seems to me this is important. Is it three digits? Is it 5,000 characters? What information is on the header?

Mr. EGGER. This is Mr. Laycock. He is the Assistant Commissioner of Computer Services.

Mr. SCHULZE. I will be happy to have Mr. Laycock enlighten me.

Mr. EGGER. This is a kind of technical discussion on which I have to admit to my own lack of precise knowledge.

Mr. LAYCOCK. Congressman, each reel of tape, approximately 20 feet from the front edge, has a silver reflective spot on it. This is the spot that indicates to the machine the place where the equipment is supposed to begin writing labels and data.

The label is written on the tape at that reflective spot to identify what is on the subsequent portion of the tape itself in magnetic language.

The label is approximately 80 characters long. The first three characters identify it as the header record on the tape, the serial number that is physically attached to the back of the tape, so that it can be seen visibly, is also written on the label in magnetic form.

The computer run number, which is the job code assigned to the program that creates the tape, is written on that label along with other identifying information that would hopefully prevent an erroneous tape from being used as input to a subsequent computer run.

A subsequent computer run would be attempting to discriminate any other tape other than the specific tape which is identified as the appropriate input for the subsquent program.

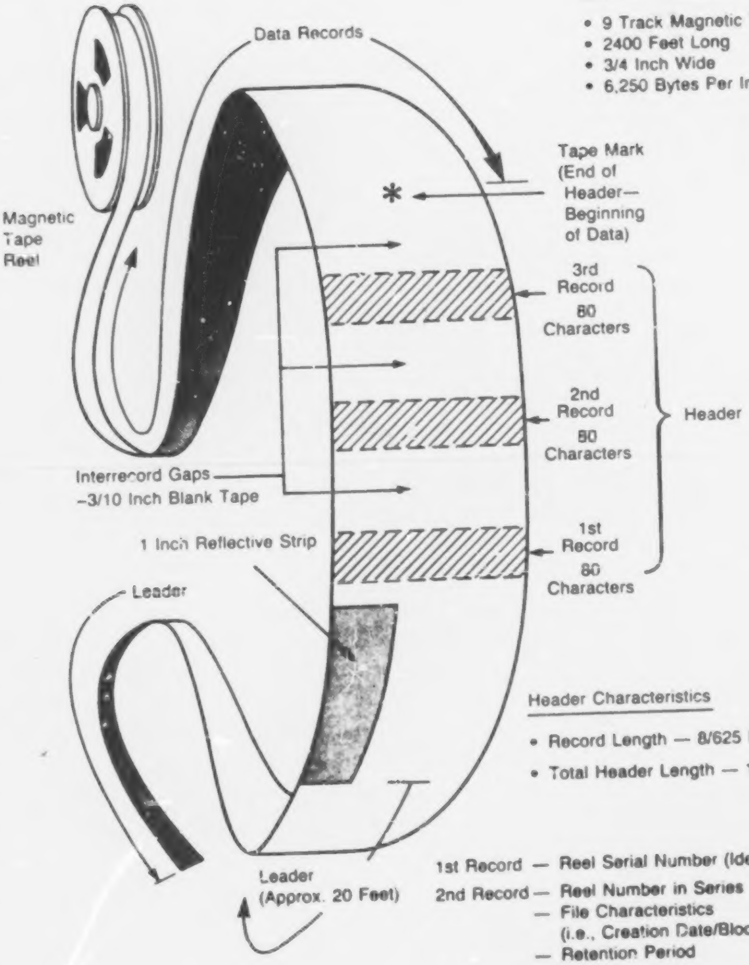
[The following was subsequently received:]

Insert 53a

IRS Magnetic Tape Header Description

Tape Characteristics

- 9 Track Magnetic Tape
- 2400 Feet Long
- 3/4 Inch Wide
- 6,250 Bytes Per Inch (BPI)



Header Characteristics

- Record Length — 8/625 Inches
- Total Header Length — 1 1/4 Inches

1st Record — Reel Serial Number (Identifier)
2nd Record — Reel Number in Series
— File Characteristics
(i.e., Creation Date/Block Count)
— Retention Period
3rd Record — File Format
(i.e., Record Length, Etc.)

HEADER DESCRIPTION - ORIGINAL TAPE (301682)

First Record - Volume Header Label (VOL1)

The VOL1 label exists as the first label block on every reel. It is maintained by the Series 1100 Executive to verify that the proper reel has been mounted. The COBOL program has no access to this label.

Character Positions	Length	Standard Content	Description
1-3	3	a)-VOL b)-(VOL) c)-(blank)	Label identifier
4	1	a)-1 b)-(1) c)-(blank)	Label number
5-10	6	a)-Reel number b)-(301682) c)-(blank)	Six alphanumeric characters identifying the physical reel
11	1	a)-Blank or nonblank b)-(blank) c)-(blank)	Nonblank indicates restricted access, as the tape is privately owned
12-37	26	a)-Spaces b)-(blank) c)-(blank)	Not used
38-51	14	a)-Account number or spaces b)-(blank) c)-(blank)	Account number of owner if this is a privately owned tape reel
52-79	28	a)-Spaces b)-(blank) c)-(blank)	Not used
80	1	a)-1 b)-(1) c)-(blank)	Indicates tape contains standard labels

a) Generic Information
b) Information which should have been present
c) Information that was actually present

HEADER DESCRIPTION - ORIGINAL TAPE (301682) (cont'd)

Second Record - First File Header Label (HDR1)

The HDR1 label exists as the first label block on every file or file section on a tape reel. It is maintained by the Series 1100 Executive System to control access to the file.

Character Positions	Length	Standard Default Values	Description	Value of Name
1-3	3	a)-HDR b)-(HDR) c)-(blank)	Label identifier	None
4	1	a)-1 b)-(1) c)-(blank)	Label number	None
5-21	17	a)-External qualifier file-name b)-(FTD7703) c)-(blank)	File identifier	FILE-ID
22-27	6	a)-Reel number of first reel of tape set b)-(301682) c)-(blank)	Set identifier	None
28-31	4	a)-0001 b)-(0001) c)-(blank)	File section number (reel sequence number within a file)	None
32-35	4	a)-0001 b)-(0001) c)-(blank)	File sequence number (within a reel)	None
36-39	4	a)-0001 b)-(unknown) c)-(blank)	Generation number	None
40-41	2	a)-00 b)-(00) c)-(blank)	Generation version number	None
42-47	6	a)-Date when file created b)-(84285) c)-(blank)	Creation date in Julian form preceded by one space	None

HEADER DESCRIPTION - ORIGINAL TAPE (301682) (cont'd)

48-53	6	a)-Creation date plus period from ASG statement field-4 (or Operating System default) b)-(84314) c)-(blank)	Purge date in Julian form preceded by one space	PURGE DATE
54	1	a)-Space b)-(blank) c)-(blank)	Accessibility	FILE ACCESS
55-60	6	a)-000000 b)-(000000) c)-(blank)	Block Count	None
61-73	13	a)-U1100-1 b)-(U1100-1) c)-(blank)	Identifier of system which recorded the file	None
74-80	7	a)-Spaces b)-(blank) c)-(blank)	Unused	None

HEADER DESCRIPTION - ORIGINAL TAPE (301682) (cont'd)

Third Record - Second File Header (HDR2)

The HDR2 label follows each HDR1 label. This label contains additional file format information.

Character Position	Length	Standard Default Values	Description
1-3	3	a)-HDR b)-(HDR) c)-(blank)	Label identifier
4	1	a)-2 b)-(2) c)-(blank)	Label number
5	1	a)-D,F,S or U for INTERCHANGE files or D for TAPE files b)-(D) c)-(blank)	D - Variable number of characters in a record F - Fixed number of characters in a record S - Variable number of characters in a record and the records may span across two or more blocks U - Variable number of characters in a record and only one record in each block
6-10	5	a)-Block Length b)-(193) c)-(blank)	Five numeric characters specifying the maximum number of characters per block
11-15	5	a)-Record Length b)-(193) c)-(blank)	Maximum record length including any control fields
16-50	35	a)-Reserved for b)-Operating Systems (blank) c)-(blank)	Reserved for operating systems use. Any alphanumeric characters

HEADER DESCRIPTION - ORIGINAL TAPE (301682) (cont'd)

51-52	2	a)-00 b)-(00) c)-(blank)	Buffer Offset. Two numeric characters specifying the length in characters of any additional field inserted before a data block, for example, block length. This length is included in the block length (character positions 6-10)
53-80	28	a)-Spaces b)-(blank) c)-(blank)	Must be "spaces"

HEADER DESCRIPTION - REPLACEMENT TAPE (315589)

First Record - Volume Header Label (VOL1)

The VOL1 label exists as the first label block on every reel. It is maintained by the Series 1100 Executive to verify that the proper reel has been mounted. The COBOL program has no access to this label.

Character Positions	Length	Standard Content	Description
1-3	3	a)-VOL b)-(VOL) c)-(VOL)	Label identifier
4	1	a)-1 b)-(1) c)-(1)	Label number
5-10	6	a)-Reel number b)-(315589) c)-(307415)	Six alphanumeric characters identifying the physical reel
11	1	a)-Blank or nonblank b)-(blank) c)-(blank)	Nonblank indicates restricted access, as the tape is privately owned
12-37	26	a)-Spaces b)-(blank) c)-(blank)	Not used
38-51	14	a)-Account number or spaces b)-(blank) c)-(blank)	Account number of owner if this is a privately owned tape reel
52-79	28	a)-Spaces b)-(blank) c)-(blank)	Not used
80	1	a)-1 b)-(1) c)-(1)	Indicates tape contains standard labels

a) Generic Information
b) Information which should have been present
c) Information that was actually present

HEADER DESCRIPTION - REPLACEMENT TAPE (315589) (cont'd)

Second Record - First File Header Label (HDR1)

The HDR1 label exists as the first label block on every file or file section on a tape reel. It is maintained by the Series 1100 Executive System to control access to the file.

Character Position	Length	Standard Default Values	Description	Value of Name
1-3	3	a)-HDR b)-(HDR) c)-(HDR)	Label identifier	None
4	1	a)-1 b)-(1) c)-(1)	Label number	None
5-21	17	a)-External qualifier file-name b)-(FTD7703) c)-(FTD7703)	File identifier	FILE-ID
22-27	6	a)-Reel number of first reel of tape set b)-(315589) c)-(307415)	Set identifier	None
28-31	4	a)-0001 b)-(0001) c)-(0001)	File section number (reel sequence number within a file)	None
32-35	4	a)-0001 b)-(0001) c)-(0001)	File sequence number (within a reel)	None
36-39	4	a)-0001 b)-(unknown) c)-(0140)	Generation number	None
40-41	2	a)-00 b)-(00) c)-(00)	Generation version number	None
42-47	6	a)-Date when file created b)-(84339) c)-(84334)	Creation date in Julian form preceded by one space	None

HEADER DESCRIPTION - REPLACEMENT TAPE (315589) (cont'd)

48-53	6	a)-Creation date plus period from ASG statement field-4 (or Operating System default) b)-(85003) c)-(84366)	Purge date in Julian form preceded by one space	PURGE DATE
54	1	a)-Space b)-(blank) c)-(blank)	Accessibility	FILE ACCESS
55-60	6	a)-000000 b)-(000000) c)-(000000)	Block Count	None
61-73	13	a)-U1100-1 b)-(U1100-1) c)-(U1100-1)	Identifier of system which recorded the file	None
74-80	7	a)-Spaces b)-(blank) c)-(blank)	Unused	None

HEADER DESCRIPTION - REPLACEMENT TAPE (315589)(cont'd)

Third Record - Second File Header (HDR2)

The HDR2 label follows each HDR1 label. This label contains additional file format information.

Character Position	Length	Standard Default Values	Description
1-3	3	a)-HDR b)-(HDR) c)-(HDR)	Label identifier
4	1	a)-2 b)-(2) c)-(2)	Label number
5	1	a)-D,F,S or U for INTERCHANGE files or D for TAPE files b)-(D) c)-(D)	D - Variable number of characters in a record F - Fixed number of characters in a record S - Variable number of characters in a record and the records may span across two or more blocks U - Variable number of characters in a record and only one record in each block
6-10	5	a)-Block Length b)-(00193) c)-(00193)	Five numeric characters specifying the maximum number of characters per block
11-15	5	a)-Record Length b)-(00193) c)-(00193)	Maximum record length including any control fields
16-50	35	a)-Reserved for Operating Systems b)-(blank) c)-(blank)	Reserved for operating systems use. Any alphanumeric characters

HEADER DESCRIPTION - REPLACEMENT TAPE (315589)(cont'd)

51-52	2	a)-00 b)-(00) c)-(00)	Buffer Offset. Two numeric characters specifying the length in characters of any additional field inserted before a data block, for example, block length. This length is included in the block length (character positions 6-10)
53-80	28	a)-Spaces b)-(blank) c)-(blank)	Must be "spaces"

Mr. SCHULZE. When the header is put on the tape—maybe I better back up a little.

Companies take their payments into the bank with their coupons. The bank takes the coupons and forwards them to the local service center.

The service center receives a batch of coupons at that point. They run these through some machine which takes a picture of them, puts them on microfilm, and records them magnetically at the same time.

Is that correct so far?

Mr. LAYCOCK. That is correct.

Mr. SCHULZE. So this magnetic tape of recorded coupons is then put together with a group of other tapes and put on a master tape?

Mr. LAYCOCK. There are subsequent runs of this tape with just the Federal tax deposit information on it at the service center.

Mr. SCHULZE. So you have one tape and as the coupons come in, they are recorded on this one tape?

Mr. LAYCOCK. But that one tape would go through other computers for subsequent running, and balancing, and checking before it goes to Martinsburg.

Mr. SCHULZE. When you do one batch, do you categorize it by bank?

Mr. LAYCOCK. No; it is typically 1 day's receipts.

Mr. SCHULZE. One day's receipts.

Mr. LAYCOCK. From many banks.

Mr. SCHULZE. But the bank is identified somehow on the tape as well as on the photograph?

Mr. LAYCOCK. Yes; along with the coupons we get there is a transmittal that identifies the bank.

Mr. SCHULZE. They have an identifying stamp on them. Is that how the center identifies them?

Mr. LAYCOCK. That is right.

Mr. SCHULZE. They are not identified by batches from certain banks otherwise?

Mr. LAYCOCK. No.

Mr. SCHULZE. So then is the header put on before this batch is run or is it put on after the information is recorded on the tape?

Mr. LAYCOCK. It is actually both, Congressman.

Before a tape is used by a computer to be written on, the operating system of the computer will read the label of the tape to determine whether or not the date on that tape has expired by comparing it to an internal date.

If it has expired, then the computer will go on and use the tape. It is a check to prevent you from misusing it.

Mr. SCHULZE. Most of the time you are using a tape over which previously had been used.

Mr. LAYCOCK. Yes.

Mr. SCHULZE. And if the tape is beyond a certain limitation date, then the tape will not use it, and if it is within that period, it is not to be used.

Mr. LAYCOCK. That is right. It will not use it.

If it determines the tape is legitimate to be used, it then backspaces the tape to the silver reflective spot and writes a new label on there with some of the information from the old label—for example, the tape serial number.

Mr. SCHULZE. So then you do have a record of how many times that tape has been used and the serial numbers of the tapes and of the information on there?

Mr. LAYCOCK. Yes, sir.

Mr. SCHULZE. Fine.

Now, how is the header put on the tape physically? Does someone sit at a keyboard and type the information on or is that put on by a programmed computer?

Mr. LAYCOCK. The programmer sets up the label inside the program as a constant and once the tape that is potentially going to be written on passes the age test, then the constant inside of memory is written on the tape as a new label with the serial number that came from the tape to begin with.

Mr. SCHULZE. So——

Chairman PICKLE. Would you yield?

If the tape is checked at that point, assuming it is a good tape, why is not the header also checked at that time?

Mr. LAYCOCK. There are a couple reasons why there might not be a header I can think of, there may be others I can't think of.

If the tape drive that the tape was created on malfunctioned and when the instruction was given to the drive to backspace the tape to the reflective spot——

Chairman PICKLE. As I understand, the tape was prepared and considered to be a good tape. As it cleared the PSC to go to Martinsburgh, someone checks to see whether it is a good tape.

Mr. LAYCOCK. Yes, sir.

Chairman PICKLE. At that point, why didn't they also check to see if the header was put on it correctly?

Mr. LAYCOCK. The check for the header label is done at the time the tape is created. It can be created in such a way so that the label doesn't appear to a subsequent machine as being there.

Chairman PICKLE. Then how are you ever going to check to see whether you got a proper heading on anything?

Mr. LAYCOCK. The subsequent machine checked to see if there was a header to be where it should be——

Chairman PICKLE. In this particular case, though, there were many different times when somebody could have come in and checked it to see if it was a good header but it wasn't done.

Mr. LAYCOCK. Excuse me, checking for the header is the thing that caused this problem.

The machine in Martinsburg checked for a header. It was not there, indicating the tape was not useful.

Mr. SCHULZE. Had this particular tape been used before?

Mr. LAYCOCK. I don't know, Congressman. I assume that it had, but I don't know.

Mr. SCHULZE. Does a tape have a shelf life or average life during which the tapes can be used over and over again; or is there a limitation on the number of times you can run it?

Mr. LAYCOCK. It can be used indefinitely, but over the time and years, they are replaced on the computer based on the information from the computer of the number of errors made in the past on it.

Mr. SCHULZE. Were there any problems with that tape along this line?

Mr. LAYCOCK. I do not know.

Mr. SCHULZE. So there is a possibility it could have been an old tape, but we don't know that for certain.

Mr. LAYCOCK. Yes. That is correct.

We can find that out. I just don't know.

Mr. SCHULZE. Would you determine that for us?

Mr. LAYCOCK. Yes, sir.

Mr. SCHULZE. I would like to know approximately how many times it had been used if it previously had been used.

[The information follows:]

AGE AND USE OF PROBLEM TAPE

The problem tape, Reel No. 301682, was acquired July 2, 1982. The replacement reel, Reel No. 315589, was acquired December 13, 1982. Tapes are aged from the date of purchase and we replace 20 percent each year, so a tape would not be considered overaged unless it was five years old. There is normally no way to tell how many times the tape has been used unless it is relatively new. Also, there are no cleaning history labels on these tapes. There is no indication that either age or lack of cleaning caused a problem with this tape.

Mr. SCHULZE. Maybe we should only use them a certain number of times.

But can you venture a guess on why the header didn't take or why it didn't print on this particular tape?

Am I correct that that was the key to this problem, the header on the tape?

Mr. LAYCOCK. That was the thing that started the problem. It did not cause it.

Mr. SCHULZE. If the header had been correct and when it came to Martinsburg, it would have run through and none of this would have happened?

Mr. LAYCOCK. Yes, sir.

Mr. SCHULZE. That is why I am trying to hone in on the header and see what happened, because it seems to me it is an important kind of thing.

Do you have any guess as to why this header didn't——

Mr. LAYCOCK. I can think of two reasons who it can happen.

As I mentioned, the computer does check to see if the old label has expired timewise. If it checks, passes that test, and rewinds the tape back to the silver spot and writes the new label on there, at that point, if an operator intervenes and rewinds the tape back to the silver spot, then when the computer begins to write data, it writes it right over the brand new label beginning at the silver spot and there is a tape now with no header on it.

Mr. SCHULZE. I see.

Mr. LAYCOCK. Another possibility: At the time the computer backspaces to write the new label, if the machine malfunctions and backspaces beyond the silver spot so that we are now writing data on the leader of the tape that is used to feed the tape into the machine, it would not be recognized by a subsequent computer.

Either of those two things could have happened.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

I would like to follow up on the question Mr. Schulze was asking. Is it unusual to have a bad header added? I assume this happens, but you catch it, is that correct?

Mr. LAYCOCK. Yes, sir.

Mr. DORGAN. And the difficulty here was not that it happened, but it was not detected and not caught and it went through the system and was not dealt with?

Mr. LAYCOCK. The problem was it was detected but it wasn't corrected timely.

Mr. DORGAN. All right.

Let me ask some questions about a management information system that seems at least questionable.

The only way that one can take action to correct a problem is if one knows there is a problem, particularly in a management setting where you need to have a system that discloses to those in decisionmaking authority that a problem exists so that those who make decisions can decide what the appropriate decision is to correct the problem.

On October 12, apparently, the information was sent to the National Computer Center, the tape with the bad header that is, which did not post the credits. And on December 24, which is about 2⅓ months from that time, the branch chief of the Computer Services Center finds out about this.

In other words, it took a couple months from the October 12 date for the Computer Services Branch chief to learn of this problem.

Now, on October 16—again, back to the start—there apparently was a weekly accounting report that showed a $300 million discrepancy. This was the report that demonstrated there was a problem out there.

I guess the question I want to ask about both of those things, the Computer Service Branch chief learning 2⅓ months following the October 12 posting problem, and the October 16 weekly accounting report demonstrating there was a $300 million discrepancy, is how could there be a $300 million discrepancy which was not resolved.

How could this discrepancy not come to the attention of the appropriate management people throughout levels in the IRS who would require a correction be made?

Commissioner, could you respond to that?

Mr. EGGER. Let me try to respond, and then I have asked Mr. Heironimus to come up here and join us because he is the Associate Commissioner for Data Processing and, in addition, has as a part of his responsibility the service center operations.

The rules call for the accounting report where there is such a discrepancy, and that discrepancy appears more than once for that accounting report then to be referred to the service center director, and in this instance, that simply was not followed.

But it would normally have been referred over to the service center director who could then have made much more immediate inquiry.

Mr. DORGAN. Would that occur over and over again?

You are suggesting human error and failure to report the discrepancy. I assume that when that discrepancy hangs out there as a discrepancy at the end of the first week, it doesn't evaporate. That discrepancy is with you every week until it is resolved, isn't it?

Mr. EGGER. That is correct.

Mr. DORGAN. Is it human error when you describe an error that occurred over and over again on the part of the same individual?

Mr. EGGER. Yes.

Mr. DORGAN. So there is a recurring error, that is a $300 million discrepancy, hanging out there which needs to be reported in order to become part of the management information system. But week after week when this report comes out, the discrepancy is not reported?

Mr. EGGER. There were successive inquiries by the accounting branch people, as I said in my testimony, and in each instance, apparently received the information that the problem was being dealt with.

So that is why—then once it was identified, then the additional time it took was in attempting to develop and to produce a replacement tape

Mr. DORGAN. Isn't that——

Mr. EGGER. Not all of this time was the thing in limbo. That is the point.

Mr. DORGAN. Wouldn't there be some override system in a normal information processing system so that, if this error isn't resolved in a certain period of time, it would go on some other management report as a failure here?

Is this a case where the management system itself is missing a step, because here is a situation where a $300 million discrepancy is not, A, reported properly; and, B, not corrected for approximately 3 months and does not cause concern anywhere in the management system because IRS management officials generally don't know about it—at least at the levels they should know about it?

Is there a deficiency in the information system here?

Mr. EGGER. We think there was and we think that the internal controls in that respect were weak and have taken definite steps to strengthen those controls.

Mr. DORGAN. That has now been done?

Mr. EGGER. Yes, sir.

Mr. DORGAN. When did you discover this? You say February?

Chairman PICKLE. He said February.

Mr. EGGER. I learned about it around the last day or two of January when the officials in the——

Chairman PICKLE. When the newspaper stories were released?

Mr. EGGER. No.

Chairman PICKLE. Is that essentially when you heard about it?

Mr. EGGER. No, sir. I heard about it from our returns processing people sometime before that.

Chairman PICKLE. If you heard about it before it hit the newspapers, you just barely did, isn't that right, Commissioner?

Mr. EGGER. I don't think it was very far ahead, that is correct.

Chairman PICKLE. Yes.

Mr. DORGAN. Let me try and understand this; I understand what Mr. Schulze is asking you. He is asking, how does it happen that a bad header is applied?

I assume it happens. I have managed a data processing facility. You process a great deal of information, but even though someone makes a mistake, you always, in the scheme of an information system, have little trap doors to be sure you know what is going on.

The chairman talked about bells and whistles and flags and so on. That is precisely what you have in an information system to alert you, as the manager, to the fact that you have a problem and you need a solution.

From what I have been able to tell here, you have a problem in the early part of October, a human error in failing to report a $300 million discrepancy that hangs out there. A human error that occurs and recurs over a several-week period as these weekly accounting reports are reissued. I assume, incidentally, that the weekly accounting reports which are reissued contain the same $300 million discrepancy the second week, third, fourth, fifth week?

Mr. **Egger**. Yes.

Mr. **Dorgan**. So the same failure which existed at the end of the first week was there the fifth week?

Mr. **Egger**. And that is the basis on which the National Computer Center was calling to the Philadelphia center, to ask them where is the replacement tape.

Mr. **Dorgan**. Is there a summary report? Do you have a weekly accounting report? There is a——

Mr. **Egger**. There is a monthly summary.

Mr. **Dorgan**. A monthly summary.

Mr. **Egger**. Yes. That should have been sent to and signed by the director of the Philadelphia service center. It was not in this instance.

Mr. **Dorgan**. Is this another error? Was it by the same person?

Mr. **Egger**. No, this is by the accounting branch chief, I think, who signed the monthly report instead of sending it to the director.

Mr. **Dorgan**. Was that an unusual procedure? Why would they do that in contravention of procedure?

Mr. **Heironimus**. If I may, Congressman, the procedure for a branch chief to sign that report is quite appropriate, providing there are no unreconciled differences on that report.

The report, however, for the month of October and the report for the month of November had unreconciled differences, but it was not shown properly.

So as a result, the delegation of authority to sign that report was proper on the face of it, but the report was prepared wrong. Had it been prepared right, that report should have been signed by the director of the service.

Mr. **Dorgan**. Is this a whole series of screwups or is the person who didn't prepare the report correctly the same person who didn't report the $300 million discrepancy in the weekly accounting report?

Mr. **Heironimus**. No, sir, I don't believe so. The individual preparing the report is in the accounting branch of our service center, separate and apart.

Mr. **Dorgan**. So it seems to be a multiplicity of errors at certain levels here.

Is there a quarterly report?

Mr. **Heironimus**. Well, no, I think——

Mr. **Dorgan**. Is there not a fourth quarter report?

Mr. **Egger**. As far as I am aware, there is only the monthly report.

I need to go back and correct a statement which I made earlier on the tape weekly reports. After the unprocessed tape is reported once, there is no new reporting each week. But the monthly accounting report does show it.

That is the one that should have gone, as I said, to the service center director.

Mr. **Dorgan**. It does appear, Mr. Chairman, there is a series of small errors in the process here that has led to the inability of people who are in the management position to have an understanding of the problem and to have the information to make decisions on how to solve the problem.

I think this hearing is a good idea, if for nothing else, in order to try and figure out where the problem is, and whether there is a large management information problem which we need to solve.

Thank you, Mr. Chairman.

Mr. **Egger**. I would like to mention, if I could, in that context, Mr. Chairman, that No. 1, I am grateful for these hearings for the very reason Mr. Dorgan just mentioned, because it has made us focus more sharply on some of these matters and particularly the need to strengthen our control procedures where we found them less than as tight as they need to be.

Mr. **Dorgan**. Just one other question. You have taken appropriate action with respect to those employees who have not functioned well?

Mr. **Egger**. That is in the process, yes, sir.

Mr. **Dorgan**. We can be sure that you will do that?

Mr. **Egger**. You can be assured.

Chairman **Pickle**. Mr. Commissioner—Mr. Dorgan, we will come back later, but I want to yield to other members. I want to ask a few questions and then yield to you, Mr. Thomas, after that.

I have a lot of questions and I don't want to have anyone going so long we don't have a chance for others to participate here.

Toward your last statement, Mr. Commissioner, you said that this was not a computer problem; the computer didn't break down; the computer worked.

That means, then, that the problem was human error between the individuals on whatever level, minor level up to senior management, that did not catch this error that went on for 4 months.

That is in essence what happened?

Mr. **Egger**. Absolutely.

Chairman **Pickle**. Now, you said that in order for us to understand—and we do understand—you had a big changeover in the service center replacement system and this is for all the centers, and I am sure that that has caused a problem. It didn't cause a problem basically for the 10 or 9 other centers, but it did in Philadelphia.

Is there any reason why it happened in Philadelphia?

Mr. **Egger**. Let me say this, Mr. Chairman: I simply am attempting to explain the kind of atmosphere in which we went into the fall period. I don't in any sense suggest that that was the cause for this particular problem.

You put your finger on it: It is not a computer problem; it is a human problem.

Chairman PICKLE. All right.

Well, I know the changeover was happening across the land and that did create a problem. I only make reference to that.

At the end of your statement, you said that you were focusing on the large changeover and the fact was you just didn't catch the seemingly minor problem of a delay in the posting of one tape. This is not a seemingly minor problem.

This is 300 million taxpayers' dollars. That one tape might seem insignificant to you, but if you put $300 million in a grocery basket and walk it around, and a hundred different supervisors never spot the $300 million, it is very significant. Probably that is a blunt way to put it, but that is almost the case.

I want to ask you, as a way of summation, after all is said and done, what ultimately caused the problem in Philadelphia?

Mr. EGGER. I am sorry. What——

Chairman PICKLE. What ultimately did cause the problem?

Mr. EGGER. In my judgment, the real problem here is the lack of sensitivity by people further down in the chain to the impact of what interactions would have on—

Chairman PICKLE. Are you talking about minor employees or management?

Mr. EGGER. Well, I am talking about people in the technical midrange of employees and managers.

I am not talking about the senior management, but the fault lies with the senior management in not having sufficiently and adequately, in my judgment, sensitized those people to the potential impacts of what they do in their daily work.

Chairman PICKLE. We are talking about individual things, I have a feeling, for the level where it was in error, but management as a whole should have egg all over its face for this.

Did you get calls from the taxpayers that had paid? Did you get protests, phone calls?

Mr. EGGER. I didn't personally receive those calls but I was aware they were being made.

Chairman PICKLE. They came in at least by December 1, around that time, yet it was not resolved for 45 or 60 days or more.

When you get direct calls saying that, wouldn't you think it would be corrected at that point?

Mr. EGGER. Certainly.

Chairman PICKLE. But it was not?

Mr. EGGER. That is correct.

Chairman PICKLE. So that has to bother you, and I know it does.

Mr. EGGER. Yes, Mr. Chairman, and I would say it would have been the unusual case where any of these notices would have gone out that early, but certainly by the middle part or later part of December, the notices would have been going out and people would have been receiving those calls.

Chairman PICKLE. Now, did the backlog of taxpayers' correspondence in the Philadelphia office in any way contribute to the IRS's inability to identify the problem or to address the taxpayers' concerns in a timely manner?

Mr. EGGER. I would say that the backlog, the sizable backlog of correspondence and adjustments may well have masked or screened off the true nature of this problem in the sense that, because of the delay necessitated or caused by our major conversion in November, our adjustments and correspondence are behind and, therefore, people are justifiably complaining if the things are not happening——

Chairman PICKLE. What kind of backlog do you have in the Philadelphia office? Is it a heavy one?

Let me help you on that, Commissioner, because we have talked to some of your folks. You see if what I say is essentially correct, if you will.

This is cases in inventory, not just phone calls, but this is on the national basis, too, at the national service centers.

As of February 8, 1985, you had 944,901 cases pending. Now, a year ago in February you had 338,000 pending throughout the United States.

Now, we can break it down by the centers: from Andover 39,000; Atlanta, 59,000; Austin, 74,000; Brookhaven, 208,076; on down the list. Here at Philadelphia, you have 172,388 backlogged cases.

Now, why is it that the number today is three times as great as it was last year and why is it your numbers are so high in Philadelphia?

Mr. EGGER. Mr. Chairman, when we went through the conversion last year, we had some 1,500, programs to rewrite and made a massive changeover or conversion to a new system. Because of that dramatic shift from one system to the other, there were and still are sizable bugs in the system, in the software.

We had hardware problems, and as a consequence, two things: One, the conversion itself which took time out during which the system just wasn't in operation because of the conversion; and because of the problems, the number of cases that grew up were simply a product of the delay in either dealing with the matters in the correspondence or making adjustments in taxpayers' accounts.

Now, it is true that at the end of 1984 we had about three times as many as we had at the end of 1983.

Chairman PICKLE. One-third as many, you mean, not three times as many. You mean one-third as many.

Mr. EGGER. In 1984, we had something over 1 million whereas in 1983 we had about 391,000.

Chairman PICKLE. All right.

Mr. EGGER. But we are working hard at that. We are working with the vendors on the conversion equipment and the software.

We have since December 31 brought that down from something over 1 million cases to just over 800,000. So we have already brought it down 23 percent.

Chairman PICKLE. I am glad to hear that.

When we started out on this, Commissioner, we were trying to find out what happened in Philadelphia, and we will come back to that.

But in the process of our investigation, we seem to have come up on an even bigger problem, potentially at least, and that is that in the very service centers throughout the country, the inventory cases are building up to enormous amounts—two, three times higher. If that is the trend, then we must ask ourselves, what are we going to do about it?

As a corollary to that conclusion, you must say that if these cases are building up and getting bigger and bigger, you are going to have to ask: Should you have more manpower? Is that the answer? Would that be helpful to you?

Mr. EGGER. It isn't so much a matter of manpower; it simply is a combination of things that all converged at the same time.

For one, in addition to the problems I have referred to of conversion to the new system, we also introduced last year a new Federal tax deposit form, and this form was designed so that we could read it mechanically—that is, through optical character recognition equipment, rather than having to manually key in all the data.

The problems that taxpayers have had in properly completing that form and understanding how it is to work and so on has been a part of the problem.

Chairman PICKLE. You are saying in effect that you don't need more manpower; you just need better people or better management?

Mr. EGGER. In this particular instance, in this particular set of problems——

Chairman PICKLE. I am talking about nationally.

Mr. EGGER. That is right. I am, too.

In this particular set of problems nationally, we need two things: We need to work a lot more with our management and to see to it that the controls are in place; but what we really need is the correction of the problems in the conversion that we have experienced.

I spent here, 2 or 3 weeks ago, I spent an entire day with the president and the senior management of our vendor company to apprise them of the problems that we are experiencing. And since then, they have sent in technicians in every 1 of our 10 service centers, and are working with us day and night around the clock and are making tremendous strides in correcting those cases.

Chairman PICKLE. One more question and I will yield to Mr. Thomas.

What impact would this computer conversion have—what effect would it have on the taxpayers in Philadelphia? Any at all?

Mr. EGGER. The impact would be that it is slowing down the number of—I mean, the time during which we would make adjustments to taxpayer accounts and the response to correspondence and so on.

It is basically in the——

Chairman PICKLE. Would it have any impact on the processing of tax returns this year?

Mr. EGGER. No, we don't think it is going to have any Federal effect.

Chairman PICKLE. The refunds will be timely processed that are expected now?

Mr. EGGER. We fully expect they will be, yes.

Chairman PICKLE. Will the taxpayers have a response, timely response, on their inquiries that they have made?

Mr. EGGER. Yes, we believe that by the middle of April, we will be pretty much down to our normal things.

Chairman **Pickle**. Could what happened in Philadelphia happen in any other computer center in the United States?

Mr. **Egger**. It could have theoretically. One of the things I am looking at now is, has it happened in the past, how did you deal with it, and what were the consequences?

For the most part, I think that as of now, at least, it is not likely to happen any time soon, but we are taking steps to see to it that it doesn't happen.

Chairman **Pickle**. I have a lot of other questions, but I will yield to Mr. Thomas at this point if he has any questions.

Mr. **Thomas**. Thank you, Mr. Chairman.

Commissioner, you are indicating that the current backlog on correspondence, some 944,000 cases is, high because of the computer changeover and that you look forward soon to getting back to normal.

Is the normal for you the 338,000 backlog that was recorded as of February 1984?

Mr. **Egger**. Right.

Mr. **Thomas**. Is that normal?

Mr. **Egger**. That is nationwide. That is probably a pretty normal inventory because we work toward a 30-day turnaround and we probably receive more than that in that period.

Mr. **Thomas**. So, give or take 338,000, is more than a 1-to-1 turnaround in a 30-day period?

Mr. **Egger**. I think it is about that.

Mr. **Thomas**. If that is the case, why doesn't it go down?

Mr. **Egger**. I am afraid I missed something.

Mr. **Thomas**. If you answer more than are received in a 30-day period, the backlog should go down. What we have done is to go up.

Does that mean we are going to go down from 944,000 within 30 days to somewhere around 400,000 or are we going to go down from 900,000 to 800,000 to 700,000 to 600,000, so that a return to the 1984 figure of 338,000 may be years away?

Mr. **Egger**. We are in the process of bringing it down. Obviously we are not going to bring it all the way down in 30 days. That is not possible to do because of the huge backlog we are going to have to work with and we are working at it.

Mr. **Thomas**. Going back to the problem in Philadelphia with businesses paying their taxes and not being credited for it and all the attendant errors, did the IRS make money on this incident?

Mr. **Egger**. The IRS make money on it?

Mr. **Thomas**. Yes. On the basis of all of the problems that have been explained to us, is it possible that the IRS made money?

There were businesses paying their taxes at the appropriate time but not being credited for them. Is there any ability to estimate whether or not the IRS came out ahead?

Mr. **Egger**. Well, we certainly shouldn't come out ahead. To the best of my knowledge, we believe we did not.

We are expected to credit each taxpayer with an appropriate payment as of the time the payment was made.

Mr. **Schulze**. If the gentleman will yield.

Mr. **Thomas**. Certainly. I yield to the gentleman from Pennsylvania.

Mr. SCHULZE. Mr. Commissioner, is there any record of people who paid after receiving a notice on levy? In other words, they sent a payment in, even though it was not due and owing? How would you detect that?

Mr. EGGER. Well——

Mr. SCHULZE. Say I am a small businessman; my Aunt Mamie does the bookkeeping and I thought she had taken care of it, and I get the notice from the IRS that it had not. I rush up and make the payment because I don't want to be out of line.

How would you reconcile that?

I think it goes to the question Mr. Thomas has.

Mr. EGGER. When the account is brought up to date, that would show an overpayment, and ordinarily we would refund it.

Mr. SCHULZE. You would automatically send a check back or just notify them that they——

Mr. EGGER. No, we would send them a check automatically with the appropriate amount.

Mr. SCHULZE. Can you tell me if there were instances whereby people overpaid, and if so how many?

I know we were discussing where the money was taken automatically, but I want to know about the cases where people sent the money in.

Mr. EGGER. I don't know of this group——

Mr. SCHULZE. Can you get the information for us?

Mr. EGGER. Yes, we can do that.

[The information follows:]

NUMBER OF TAXPAYERS SENDING IN MONEY AFTER RECEIVING NOTICES

As noted, we have reviewed the account of each taxpayer in order to identify any duplicate payment and interest that should be refunded. These refunds have been made. However, we did not maintain counts of how many taxpayers sent in money in response to IRS notices. We are now working with Internal Audit to develop extracts which should give us a more complete answer to this question.

Mr. SCHULZE. I thank the gentleman.

Mr. THOMAS. In the process of having these folks' money and carrying it over weeks and weeks in terms of the procedures, is it possible that IRS made any money on the float?

Mr. EGGER. Well——

Mr. THOMAS. When you sent them back the check, did you send it back with interest from the time period they should have gotten it and didn't, or did they just get the original amount?

Mr. EGGER. The taxpayers in this case, the Philadelphia situation, made their payments on time, so therefore, ultimately they were credited.

The problem is not with people not making the payments; the problem was that they were not credited.

Mr. THOMAS. Did any of them make an overpayment?

Mr. EGGER. Pardon me?

Mr. THOMAS. Did any of them make an overpayment?

Mr. EGGER. They may have, in which case we would expect to straighten that out and refund it appropriately.

Mr. THOMAS. Were any letters of apology to your judgment sent to individuals who didn't deserve an apology? That is, they really hadn't paid?

Mr. **Egger**. They were sent to the entire list. There may well have been somebody in there who didn't make their payment.

Mr. **Thomas**. And so they would have received a letter of apology for having made their payment when in fact they didn't.

I assume they received the followup letter saying "you didn't make your payment"?

Mr. **Egger**. Yes.

Mr. **Thomas**. Yes?

And you are not at fault if you sent them the letter "you had paid," so they feel comfortable. Assume their records are not accurate, and they didn't check. Now they are in default and they then hold a letter of apology up to the IRS saying that, in fact, their account was okay. Could the letter of apology be used as a legitimate defense?

Mr. **Egger**. No, I would not think so.

Mr. **Thomas**. You would not count that.

Who is the error on: their error for not paying or your letter saying you were in error?

Mr. **Egger**. The error would be in that case that we sent the wrong letter to the wrong person.

Mr. **Thomas**. You indicated on page 7 of your testimony that, for example, in 1984 765 master file transaction tapes failed to run in the first instance. This is not uncommon, you say, with computer tapes.

What you have is a group of professionals who almost approach it as a puzzle. When a tape doesn't run then they must figure out why, whereupon they go through an analysis process. They can usually identify the problem.

Out of the 765, one-third had to be returned to the service center that created it?

Mr. **Egger**. That is right.

Mr. **Thomas**. This was after the tape experts worked with them for a while and found out that basically there wasn't any way to get the information off the tapes?

Mr. **Egger**. It may well have been.

Mr. **Thomas**. Those were the ones sent back?

Mr. **Egger**. Yes; most of those would be error corrections that couldn't be made at the NCC and would have to be made at a center.

Mr. **Thomas**. Could NCC figure out what was wrong with the tape and then send it back or couldn't they figure out what was wrong with the tape?

Mr. **Egger**. Some of each. The fact is occasionally they are unable to figure it out, whether the tape drive—occasionally we have just incompatibility between tape drives that there isn't any explanation for.

Mr. **Thomas**. Sometimes the tapes are just garbage? They are composed of pieces of material that don't match like a header and the body?

Mr. **Egger**. I want to point out, and ask Mr. Heironimus to respond more fully, but we say in the majority of cases, the National Computer Center is able to determine where the error is and so we can correct it.

Mr. THOMAS. Are the corrections included in the tapes that are sent back to the service centers?

Mr. EGGER. It is identified. It identifies the error for correcting it in the replacement tape.

Mr. THOMAS. Then it is sent back.

Mr. EGGER. Yes.

Mr. HEIRONIMUS. If I may, Mr. Thomas, if I can put this in perspective, each of our service centers has on the order of 45 to 48 different mechanisms that generate and read tape.

The National Computer Center probably has—I will get the exact figure for the record—but it is over 100 of these tapes.

[The information follows:]

NUMBER OF TAPES/MECHANISMS AT THE NATIONAL COMPUTER CENTER

The National Computer Center has 178 different tape drives for generating and reading tapes.

Mr. HEIRONIMUS. In a process as large as ours, there are bound to be tapes that are created on drive 12 in a service center that cannot be read by another drive in the service center.

By simply changing drives or moving that tape to another mechanism, sometimes we are successful in reading that tape. The ones that literally cannot be read are the ones that are identified for replacement.

Mr. THOMAS. How many of the one-third returned to responsible service centers fall into the latter category?

Mr. HEIRONIMUS. All of the ones that are returned to the service centers are the type that need to be recreated in the service center. And traditionally, they are recreated from source files that are in existence in each of the 10 centers.

In this case, because of the time delay, that could not have been accomplished, because the tapes necessary to recreate it were not available.

But normally, they are recreated in our service centers when they are—actually before they are returned back.

Mr. THOMAS. I need a number to understand the full impact of the numbers you have in your testimony, Mr. Commissioner. You said 765 tapes failed to run in the first instance; of those, one-third had to be sent back.

How many tapes are we talking about? That is, how many are read in the first instance in 1984? What is the universe we deal with in number of tapes?

Mr. EGGER. We send something over 80,000 tapes a year into the National Computer Center.

Mr. THOMAS. 80,000 tapes go in. Of those, 765 couldn't be read in the first instance and 222 were sent back?

Mr. EGGER. Well, let me be sure that I don't misinform you; 80,000 tapes includes all types of tapes. The 765 that I referred to there are so-called transaction tapes and these are tapes where there is some impact or effect on taxpayer accounts.

Mr. THOMAS. Obviously, Commissioner, we have a limited time. So I understand what you are saying, let's use your terminology.

You said 765 master file transaction tapes fail to run. How many master file transaction tapes were sent?

Mr. EGGER. 23,000.

Mr. THOMAS. That is the number I am looking for. Thank you.

Do you have any idea of the distribution of the 222 that were returned? For instance, you have identified the mail backlog by the service center. Do you have a similar distribution of computer tapes that failed to run or were sent back, and what percentage were from Philadelphia?

Mr. EGGER. We do have that, and I can supply you with that for any of the 10 service centers.

Mr. THOMAS. Who had the lowest score?

Mr. EGGER. I can't—I don't know that offhand.

Mr. THOMAS. I would appreciate it if you could supply me with the numbers showing which center has the smallest number of tape returns. It is a simple comparison.

Mr. GOLDBERG. We can get that.

Mr. THOMAS. You don't know?

Mr. EGGER. We don't have the figures with us.

Mr. HEIRONIMUS. We have the figures, but not with us.

Mr. THOMAS. I wanted to know about the tapes.

My question is, obviously, has Philadelphia had a history of sending unreadable tapes and to what extent was their problem greater than other service centers in anticipating the problem?

That is one of my concerns.

[The information follows:]

NUMBER/DISTRIBUTION OF COMPUTER TAPES THAT FAILED TO RUN OR WERE SENT BACK TO SERVICE CENTERS

Listed below are the number of tapes sent to the National Computer Center by each service center in 1984 that had to be replaced and the average number of weeks it took each center to replace them. Philadelphia was responsible for 15 percent of the 159 tapes that had to be replaced. This was the third highest compared to the other nine service centers. Cincinnati had the lowest number of replacement tapes requested. There was no history of problems in the Philadelphia Service Center.

	Number of tapes replaced	Average number of weeks to replace tapes
Service center:		
Kansas City	32	1.4
Atlanta	24	1.3
Philadelphia	23	2.4
Austin	18	2.2
Memphis	12	1.2
Fresno	12	2.0
Brookhaven	11	1.7
Andover	11	1.0
Ogden	10	.8
Cincinnati	6	1.0
Total	159	

Mr. EGGER. I do not believe they were greater, but we will give you precise information.

Mr. THOMAS. Thank you, Mr. Chairman.

Chairman PICKLE. Thank you, Mr. Thomas.

Commissioner, you say the Philadelphia center did not experience any more difficulties than other centers?

Mr. EGGER. That is my general understanding, as I said. However, we will give you very precise information on it, Mr. Chairman.

Chairman PICKLE. I am asking you, then, is the Philadelphia Service Center experiencing any unusual difficulties greater than other centers throughout the country?

Mr. EGGER. No, sir; I don't believe so.

Chairman PICKLE. You are satisfied with the management and the way that operation is functioning up there?

Mr. EGGER. No; I am not satisfied with the management and the way that operation functioned in this instance, and this instance is an example of why. And so I have already taken steps to see that we make some changes in the old management approach there.

Chairman PICKLE. Do the Philadelphia management procedures compare favorably to other centers throughout the country?

Mr. EGGER. In general, the controls and procedures that are in place for Philadelphia are the same essentially as they are elsewhere in the country.

Chairman PICKLE. All right.

Mr. Flippo.

Mr. FLIPPO. Thank you, Mr. Chairman.

Mr. Commissioner, I wonder if you would give us a very brief description of the role of the taxpayer ombudsman?

Mr. EGGER. Yes; to begin with, the ombudsman is a member of my immediate staff and reports directly to me as the Commissioner.

His role is to serve as an advocate for taxpayers within the Internal Revenue Service, and he is responsible for administering and evaluating the national problem resolution program.

Mr. FLIPPO. I wonder if the ombudsman is here today.

Mr. EGGER. Yes.

Mr. FLIPPO. I wonder if he could identify for us in this chronology of events when he became aware of the problem in Philadelphia.

Mr. EGGER. It would not be the role of the ombudsman to involve himself in the direct operations of a service center.

Mr. FLIPPO. I didn't expect him to be involved in the operation of the center. I am asking, when did the ombudsman, the taxpayer's representative, become aware of the problem in Philadelphia?

I assume since he is a taxpayer's representative for that region——

Mr. EGGER. No, Mr. O'Hanlon is the ombudsman for the entire country.

Mr. FLIPPO. Do you have representatives in Philadelphia?

Mr. EGGER. Yes.

Mr. O'HANLON. Yes, we do.

Mr. FLIPPO. Can you tell me when they became aware of this problem?

Mr. O'HANLON. The problem resolution officer in the region, and the problem resolution officer in the Philadelphia Service Center became aware of it on January 24 or 25.

Mr. FLIPPO. That is when they had the first facts.

Were they made aware of it by a taxpayer complaint or was it some other internal method by which they became aware of the problem?

Mr. O'HANLON. Problems were being identified in the districts. To give an example, a taxpayer had contacted the collection division in a particular district saying they had problems with an FTD coupon and that they had mentioned, in talking to the bank involved, that the bank had a number of them.

The problem resolution officer contacted the bank to find out what the problem was. It was determined to be a problem with the deposit on September 28. The problem resolution officer got in contact with the accounting branch in the service center thinking something was wrong with the deposit.

After the deposit was checked out, it was then determined that there was nothing wrong with the deposit; that there was something wrong systematically. This was in the middle of January.

The problem resolution officer then contacted the regional problem resolution officer, who in turn contacted the problem resolution officer in the service center.

That was the first time they knew about it. That was after the director of the service center knew about the situation.

Mr. FLIPPO. So this problem, the nature of this problem, is one in which your office would be responsible for detecting and resolving?

Mr. O'HANLON. The way the problem was detected, in situations such as this, Congressman, the horse is out of the barn by the time we get involved in it.

The notices are in the hands of the taxpayers at that time. These problems are usually identified when a taxpayer asks for problem resolution assistance or a service employee recognizes that the problem meets our problem resolution criteria.

Mr. FLIPPO. Mr. O'Hanlon, what I am trying to find out is, did you participate in the internal audit review?

Mr. O'HANLON. I have been in constant contact with the assistant commissioner, inspection, along with the internal auditors located in Philadelphia.

Mr. FLIPPO. I am trying to understand whether or not you have been involved with the internal audit review and its findings or recommendations?

Mr. O'HANLON. Yes, I have.

Mr. FLIPPO. Are you aware of any other potential disasters along these lines of a systematic failure or human error?

Do you or did you in your participation determine one specific area that caused you greater concern than any other, the greatest failure that contributed to this?

Mr. O'HANLON. The greatest failure I see is the lack of understanding by the people involved in trying to correct the situation; the lack of understanding is that they don't realize the rest of the system is moving on along and that things will happen if those payments are not posted to the accounts.

Mr. FLIPPO. And you feel that the recommendations of the internal audit will solve this problem?

Mr. O'HANLON. The recommendations that I have participated in to this point are firm. The report is not complete at this point in time, but I am confident, once the report is completed and the examination is finished, that we will have a much improved system, and I am confident that incidents such as this happening again are very, very remote.

Mr. FLIPPO. Thank you very much.

Could anyone tell us when the report will be final and available to the committee?

Mr. EGGER. It is simply a matter of another few weeks. We are looking at some other aspects of the problem to be sure that it is as complete as possible, but it will be in the fairly near future.

Mr. FLIPPO. Do you plan to recommend any employee disciplinary actions be taken?

Mr. EGGER. We are not that far yet.

Mr. FLIPPO. Thank you.

Thank you, Mr. Chairman.

[The following was subsequently received:]

Insert 984

Internal Audit Report

Department of the Treasury
Internal Revenue Service

**Office of the
Assistant Commissioner
(Inspection)**

**Internal Audit
Division**

The Service Needs Controls to Ensure Prompt Replacement of Unprocessable Tapes

Office of the Director
Internal Audit Division

Official Use Only

Reference Number
05171

INTERNAL AUDIT REPORT
THE SERVICE NEEDS CONTROLS TO ENSURE PROMPT REPLACEMENT OF UNPROCESSABLE TAPES

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INTERNAL AUDIT REPORT
THE SERVICE NEEDS CONTROLS TO ENSURE PROMPT REPLACEMENT OF UNPROCESSABLE TAPES

DIGEST

The Philadelphia Service Center did not take timely and effective actions on a National Computer Center request for a magnetic tape to replace one which could not be processed. As a result, $300 million in Federal Tax Deposit (FTD) payments by 26,000 business taxpayers were not credited for over three months. This caused incorrect billings, erroneous enforcement actions, and a multitude of other incorrect transactions within those taxpayers' accounts. The tape has been processed and many of the accounts have been corrected; however, to date, the service center has not assured that all the affected taxpayers have been identified or that the accounts will be completely corrected.

The tape could not be processed by the National Computer Center on October 12, 1984 because of a routine technical problem. The National Computer Center requested a replacement tape which normally could have been provided by the service center within four days of the request. However, the Philadelphia Service Center did not provide a replacement tape until December 5, 1984, or 54 days. A subsequent problem with the replacement tape delayed final processing for another 44 days, until January 18, 1985.

This tape was not processed timely because the Philadelphia Service Center was unresponsive to National Computer Center requests: managers and operating personnel, with few exceptions, treated the requests as a routine matter; the new Computer Support Section Chief was inexperienced in computer operations and not aware of the specific requirements for tape replacement; and, local written procedures had not been established to ensure the timely processing of replacement tapes.

Because the replacement tape was not timely processed, most taxpayers received at least one erroneous balance due notice and were erroneously assessed penalty and interest. Also erroneous levies were issued on five taxpayers, and one erroneous lien was filed. An undetermined number of taxpayers had a portion of their refunds for other tax periods withheld to satisfy the balance due created by the unposted FTD payment.

Nationwide, during 1984, the National Computer Center requested 159 replacement tapes. Tapes should normally be replaced in less than a week.

The service centers took from two to fifteen weeks to replace 41 of the 159 tapes. (Fourteen tapes took four or more weeks to replace including the Philadelphia tape which took fifteen weeks.) After two weeks, management should be assessing the potential for erroneous collection activity and taking necessary actions.

To evaluate servicewide controls over replacement tape processing, we reviewed Kansas City Service Center, Austin Service Center, and National Computer Center procedures. All three centers had different systems of controls for processing replacement tapes and following up on unprocessed tapes. However, these controls did not establish adequate standards to ensure prompt processing.

The incident at Philadelphia, the varying degree of service center and National Computer Center controls, and the number of tapes which took more than a week to replace show the need for national procedures and controls. Therefore, we recommend the following procedures be established nationwide. These procedures will work as an efficient control to ensure the timely processing of replacement tapes and to timely apprise appropriate management officials of replacement tape delays that could adversely impact on taxpayers.

- A specific telephone number and accountable position at each service center should be provided to the National Computer Center for making initial requests for replacement tapes.

- A sequentially numbered memorandum of contact containing all relevant information should be prepared by the person receiving the request. The contact memorandum should then be given to the Computer Support Section Chief who should maintain a control log to ensure completion of the request.

- The service center director should forward to the Computer Branch Chief all National Computer Center Cycle Input Reports which list requests for replacement tapes. Each week the branch chief should reconcile this report to the log maintained by the Computer Support Section Chief. All uncompleted requests should be immediately reported to the Computer Services and Accounting Division Chief.

- The National Computer Center should maintain a file in date order of requests for replacement tapes. If a request is not completed in ten days, the National Computer Center Division Chief should be notified and a follow-up telephone request should be made to the service center division chief.

- The National Computer Center weekly Cycle Input Report should list not only the current week requests for replacement tapes but also prior requests for tapes that have not successfully posted. This report should be sent by facsimile from the National Computer Center Director to all service center directors and the National Office Returns Processing and Accounting Division.
- The Service Center Data Control Unit in the Accounting Branch should weekly reconcile the Revenue Receipt Summary Reports to the National Computer Center Accountability Acceptance Vouchers. If the reports do not reconcile to a voucher, the Computer Services and Accounting Division Chief should be immediately notified.
- Retention period for input tapes related to requests for replacement should be adjusted to ensure that the tapes are not scratched before the replacement tape successfully posts at the National Computer Center.

The Assistant Commissioner (Returns and Information Processing) is incorporating the recommendations in the Internal Revenue Manual and the National Computer Center Standard Operating Procedures. Attachment V is the Assistant Commissioner's response on this report to the Commissioner.

* *

In addition to the replacement tape processing delay, the procedure established by the Philadelphia Service Center to correct taxpayers' accounts has not assured that all these accounts have been included in the correction process and that the accounts are accurately, completely, and timely corrected. Due to the sensitivity of this situation, we will continue to monitor the recovery procedure and report our results to the Philadelphia Service Center Director.

INTERNAL AUDIT REPORT
THE SERVICE NEEDS CONTROLS TO ENSURE PROMPT REPLACEMENT OF UNPROCESSABLE TAPES

INTRODUCTION

This National Coordinated Audit was initiated in response to the Commissioner's request for an independent analysis of the Service's controls over replacement of unprocessable magnetic tapes. The audit initially involved an analysis of the reasons for a delay of over three months in processing a Philadelphia Service Center tape. To provide an appraisal of servicewide controls, we expanded the review to include the Austin Service Center, Kansas City Service Center and National Computer Center. The audit was conducted in accordance with generally accepted government auditing standards.

The principal function of a service center is to timely and accurately process taxpayer remittances, returns, and other related documents. The service centers process source documents through a computer processing system and create magnetic tapes. The magnetic tapes are shipped to National Computer Center where an account for every taxpayer is maintained. The National Computer Center processes the tapes and the individual transactions are posted to the appropriate accounts. When the National Computer Center cannot process a tape, they request a replacement from the submitting service center.

There are no written national procedures established to ensure that replacement tapes are timely created and shipped to the National Computer Center; however, the following process normally occurs:

- When the National Computer Center cannot process a tape, they immediately call the Computer Branch in the submitting service center to request a replacement.

- The Computer Branch creates a replacement tape by rerunning the appropriate program with the original input tapes. We were advised that this action can normally be completed within four days of the request.

- The National Computer Center Director sends a weekly report to all service center directors. This report lists all tapes that the National Computer Center could not process that week.

- The National Computer Center maintains a file of service center tape control documents until processing is completed. This file is used to initiate follow-up when tape replacements are not received within four to five weeks.

In addition to the above process, the following series of accounting reports are designed to ensure the accountability of funds, to balance subsidiary accounts, and to reconcile imbalances between the service center and National Computer Center records.

- A Revenue Receipts Summary Report which identifies the reel number, the number of transactions, and the total dollar amount of the transactions is provided to the Accounting Branch when the tape is shipped to the National Computer Center.
- The National Computer Center sends a weekly Accountability Acceptance Voucher to the service center Accounting Branch. This voucher lists the reel number, the number of transactions, and the total dollar amount of the transactions for all tapes processed by the National Computer Center that week. A comparison of these Acceptance Vouchers with the Revenue Receipts Summary Reports will identify all tapes not processed by the National Computer Center.
- The National Computer Center sends a monthly tape to each service center which generates a Report of U.S. Internal Revenue Receipts which is used according to national requirements to reconcile differences in processed transactions between the service center and the National Computer Center. A comparison of this report with the Revenue Receipts Summary Reports will also identify all tapes not processed by the National Computer Center.
- The service centers must prepare a monthly Reconciliation of Subsidiary Accounts (Form 3997) according to national requirements. This report should record tapes not processed after the first month as unreconciled items.

OBJECTIVES AND SCOPE OF REVIEW

The objectives of this review were to determine:

(1) the sequence of events that occurred from the time that the National Computer Center requested a replacement tape for reel #301682 to the time that the National Computer Center successfully processed the replacement tape;

(2) the effectiveness of controls and procedures to ensure that replacement tapes are timely and accurately processed; and,

(3) the effectiveness of the Philadelphia Service Center's actions to correct accounts erroneously affected by the untimely replacement of reel #301682.

To accomplish these objectives we:

(1) interviewed all Philadelphia Service Center managers and operating personnel who were involved in the replacement tape process;

(2) reviewed procedures and related documentation in the National Computer Center and in the Philadelphia, Austin, and Kansas City Service Centers;

(3) reviewed related Problem Resolution Program activity; and,

(4) reviewed related Training activity.

RESULTS OF REVIEW

The Results of Review are divided into three sections: Replacement Tape Controls in the Philadelphia Service Center; Replacement Tape Controls in Other Service Centers and the National Computer Center; and, Philadelphia Service Center Procedures to Correct Taxpayers' Accounts.

Replacement Tape Controls in the Philadelphia Service Center

On October 10, 1984, the Philadelphia Service Center timely processed a Federal Tax Deposit (FTD) tape containing records of 28,835 deposits totalling $296,883,964.23 from 26,756 taxpayers. The National Computer Center could not process this tape on October 12, 1984 because of a routine technical problem. A service center normally can provide a replacement tape within four days of the request from the National Computer Center. However, the Philadelphia Service Center did not supply a replacement reel for 54 days, until December 5, 1984. A subsequent problem with the replacement tape delayed final processing by the National Computer Center another 44 days, until January 18, 1985. The key events of this situation are presented in Attachment I and a detailed chronology is presented in Attachment II.

These extensive delays caused erroneous collection activity, damaged the image of the Service, and created additional work for the Service.

(1) Erroneous Collection Activity

Most of the 26,000 taxpayers received at least one erroneous balance due notice. Some received additional notices depending on either their liability amount or their prior delinquency history. Erroneous levies were issued on five taxpayers, one erroneous lien was filed, and many taxpayers were erroneously assessed penalty and interest. An undetermined number of taxpayers had a portion of their refunds for other tax periods withheld to satisfy the balance due created by the unposted FTD payment.

(2) Image of the Service

The erroneous collection activity, which caused taxpayer inconvenience and expense, badly damaged the image of the Service. The public's confidence in the Service's overall ability to collect their proper amount of tax at the least cost to the public was diminished by continuing unfavorable national news coverage.

(3) Additional Work for the Service

The Philadelphia Service Center is spending considerable resources correcting the problem. A program was established to send apology letters to affected taxpayers and additional letters were sent to taxpayers whose assets were erroneously levied. The Center is also expending resources adjusting the taxpayer accounts containing erroneous penalty and interest assessments and other erroneous transactions.

Finally, the Philadelphia Service Center Adjustment/Correspondence Branch has received approximately 10,000 pieces of correspondence from taxpayers with complaints relating to the untimely processed payments. This additional work has adversely impacted on an already serious backlog of adjustments inventory which totalled over 140,000 adjustment cases.

The tape was not processed timely because the Philadelphia Service Center did not have a standard operating procedure for responding to National Computer Center requests for replacement tapes. Also, Philadelphia Service Center managers at various levels were not sufficiently involved in day to day operations to identify and correct the continuing replacement tape problem. The specific control breakdowns follow:

(1) Computer Branch Controls

Telephone requests from the National Computer Center were not directed to an accountable position at the Philadelphia Service Center and the requests were not formally documented, logged, controlled, or distributed. Weekly listings of unprocessed reels issued by the National Computer Center were not used to ensure that tapes were timely and successfully replaced. And, retention of input tapes was not based on the successful completion of processing at the National Computer Center.

(2) Accounting Controls

An Accountability Acceptance Voucher is generated weekly by the National Computer Center and informally used by the service center to reconcile their record of reels shipped to the National Computer Center. We were informed that the Data Control Unit at the Philadelphia Service Center contacted the National Computer Center when the tape was not processed for two weeks to determine the status of the unprocessed reel which was not contained in this report. The Data Control Unit was advised that the tape was in process; however, no follow-up was made when subsequent weekly reports showed that the tape was not processed.

(3) Management Controls

With few exceptions, Philadelphia Service Center managers and operating personnel treated the request for the replacement tape as a routine matter. They did not display a sense of urgency in reproducing the tape and returning it to the National Computer Center. Until mid-January 1985, we did not see evidence of any manager at the Branch Chief level or above following through on information they had about the unprocessed tape. These managers did not investigate the need for prompt action to replace the tape or take action to prevent issuance of erroneous balance due notices to taxpayers because they assumed that the problem with the unprocessed tape had been resolved by their subordinates.

The latest annual program review conducted by the Office of the Assistant Regional Commissioner (Data Processing) on August 15, 1984 noted that "Computer Branch performance represents a significant present as well as future problem... the apparent primary operational deficiencies stem from ineffective management at the Branch and Section levels." This report reflected a need for strengthened controls; however, no controls were instituted to correct the deficiencies identified.

Philadelphia Service Center management also did not ensure that the new Computer Support Section Chief was trained and prepared for the responsibilities of the position. In general, the Service has not developed training courses for Computer Support Section personnel; training has been done on the job. The recently selected Computer Support Section Chief, who was directly responsible for ensuring timely replacement tape processing, was selected without the required experience qualifications. To compensate for the lack of experience, a formal training agreement was established with this employee. The training was designed to provide the Section Chief with the knowledge needed to effectively perform the critical functions of coordinating and controlling Computer Branch activity. The training agreement, however, was not implemented.

Replacement Tape Controls in Other Service Centers and the National Computer Center

During 1984, the ten service centers provided the National Computer Center with approximately 30,000 tapes; 23,000 tapes contained transactions affecting taxpayers' accounts; 159 of these tapes could not be processed by the National Computer Center and needed to be replaced. Tapes should normally be replaced in less than a week. There were 41 replacement tapes that were not processed within a week of the request; these tapes took from two to fifteen weeks to replace. (Fourteen tapes took four or more weeks to replace including the Philadelphia tape which took fifteen weeks.) After two weeks, management should be assessing the potential for erroneous collection activity and taking necessary actions.

Tests at the Kansas City and Austin Service Centers and the National Computer Center showed that all three centers had different systems of controls for processing replacement tapes and following up on unprocessed tapes. However, their controls did not establish adequate standards to ensure prompt processing. In the Kansas City Computer Branch, requests from the National Computer Center were directed to an accountable position and the requests were formally documented, logged, controlled, and distributed. Replacement tapes were processed with an expedite priority. The weekly listing of unprocessed reels issued by the National Computer Center was reconciled to the replacement tape control log by the section chief. Also, when delays occurred input tapes were retained until the tapes successfully posted.

In the Kansas City Accounting Branch, a log was maintained of all FTD tapes sent to the National Computer Center and was reconciled to the weekly Accountability Acceptance Vouchers generated by the National Computer Center. When a tape was not reconciled within two weeks, they alerted the accounting function in the National Computer Center.

In the Austin Computer Branch, requests from the National Computer Center were directed to an accountable position, documented, and controlled. Each Monday, the Computer Branch called the National Computer Center to identify prior week processing problems. The weekly listing of unprocessed reels issued by the National Computer Center was routed to the accountable position.

The Austin Accounting Branch maintained records of all tapes shipped to the National Computer Center. If the tape was not processed after two weeks the Computer Services and Accounting Division Chief was notified by memorandum.

The National Computer Center maintained a system that documented and controlled telephone requests for replacement tapes. They also provided service center directors with a weekly report of all tapes that could not be processed that week. The National Computer Center did not, however, follow up on replacement tapes request until four to five weeks after the original request was made.

As a result of the Philadelphia Service Center experience, the Kansas City Service Center, Austin Service Center, and National Computer Center have strengthened their controls.

Philadelphia Service Center Procedures to Correct Taxpayers' Accounts

Once the FTD tape problem was identified, the Philadelphia Service Center began an extensive recovery program to identify affected taxpayers, issue apology letters, resolve taxpayers' accounts, and assure erroneous collection activity would not occur. The recovery program, primarily conducted in the Adjustment/Correspondence Branch, involved controlling, researching, categorizing, and correcting the accounts of approximately 26,000 taxpayers. In addition, the Collection Branch was responsible for taking appropriate actions to assure that these affected taxpayers would not be subject to erroneous liens, levies, or notices.

The actions to correct taxpayer accounts have not assured that all of the accounts are included in the correction process and that the accounts are accurately, completely, and timely corrected because:

- the exact number of affected taxpayers was not determined;
- an effective control was not established to coordinate the corrective actions among the various service functions;
- effective action was not taken to assure that subsequent account activity did not adversely affect the taxpayers;
- actions were not taken to correct all errors in taxpayers' accounts; and
- neither a specific quality control nor a follow-up review has been established to ensure that all accounts have been properly resolved.

Because controls were not established, not all taxpayers have received apology letters; nineteen taxpayers have never been included in the recovery procedures; an undetermined number of taxpayers' accounts served by other service centers may not be controlled; an undetermined number of taxpayers' accounts contained misapplied payments and/or erroneous credit offsets which have created incorrect balances in recent tax periods; an undetermined number of taxpayers' accounts still have unabated penalty and interest; and at least 71 taxpayers received bills after they received apology letters.

Due to the sensitivity of this situation, we will continue to monitor this recovery procedure and report to the Philadelphia Service Center Director the problems and discrepancies that we identify. Our review will be based on an acceptable error rate of zero. We are also analyzing the entire data base of the untimely processed FTD's to determine the exact number and the identity of all affected taxpayers. This information is being shared with management.

From its inception, the Problem Resolution Officer's role has been to intercede on behalf of taxpayers to resolve persistent problems and their underlying causes. Problem Resolution Officers are supposed to represent taxpayers' interests and concerns in the overall decision-making process of the Service.

It would have been extremely difficult for the Problem Resolution Officers to isolate any specific trend related to the FTD tape problem. Receipts of the Philadelphia Service Center Problem Resolution Program cases between November 26, 1984 and February 25, 1985 did not show any trend or increase in cases that would have been related to the FTD tape problem. The percentage of problem resolution FTD related complaints to total receipts remained constant throughout the period that the FTD tape was not processed. Attachment III shows the specific number of receipts for both the Mid-Atlantic Region and the Philadelphia Service Center.

Once the problem was identified, District Problem Resolution Officers took an active role to identify and control the taxpayers' accounts. However, at the Philadelphia Service Center the Problem Resolution Officer was not involved in the recovery program because of a management decision to have it controlled through the management staff.

RECOMMENDATIONS

Our overall recommendation is that written national procedures be established to ensure the timely processing of replacement tapes and the involvement of appropriate management officials when replacement tape delays will adversely impact on taxpayers.

Under the current notice process, first notices are mailed out four weeks after the return posting date. The specific controls recommended below, therefore, progressively elevate information so that director level management will become aware of the delay no later than two weeks after the initial request. This will allow two weeks to prevent adverse taxpayer impact.

The following specific controls need to be established and implemented.

A specific telephone number and an accountable position at each service center should be provided to the National Computer Center for making initial requests for replacement tapes.

Currently, when the National Computer Center requests a replacement tape, the request is given to the employee who answers the phone. In an attempt to replace defective reel #301682, the National Computer Center requested a replacement from three different employees. Establishing an accountable position will help ensure that the replacement tape process will be timely and properly initiated.

A sequentially numbered memorandum of contact containing all relevant information should be prepared by the person receiving the request. The contact memorandum should then be given to the Computer Support Section Chief.

Currently, memorandums of contact are not always prepared. In the case of reel #301682, no memorandums of contact were prepared; therefore, there was no documentation that would initiate the replacement tape process. In addition, the memorandum will serve to establish a follow-up control to ensure that the replacement tape is processed. The sequential numbering will ensure that all memorandums are accounted for.

The Computer Support Section Chief should maintain a log corresponding to the numbered memorandum of contact. The log should contain the date of the request, the number of the reel to be replaced, the name of the person responsible for replacing the tape, the date shipped to the National Computer Center, and the date successfully processed at the National Computer Center.

Currently, logs are being maintained with varying degrees of completeness and accountability. No log items were recorded for reel #301682. The log should be monitored to ensure that the replacement tape process is completed. It can also serve as the basis for a follow-up control to ensure that upper level management is apprised of replacement tapes that are not processed within a routine amount of time.

The service center director should forward to the Computer Branch Chief all National Computer Center Cycle Input Reports which list requests for replacement tapes. Each week the branch chief should reconcile this report to the log maintained by the computer support section chief. All uncompleted requests should be immediately reported to the Computer Services and Accounting Division Chief.

Currently, these reports are not always used to ensure that replacement tapes have been processed. Regarding the replacement for reel #301632, there is no indication that management above the section level used this report. Also, these reports are not routinely used to notify upper level management of unprocessed requests for replacement tapes. Using this report weekly to determine the status of requests for replacement tapes and to apprise division level management of delays in processing should provide management with sufficient time to correct the problem before there is adverse impact on taxpayers. This report will also serve to identify requests for replacement tapes that have not been made, documented, or logged.

The National Computer Center should maintain a file in date order of requests for replacement tapes. If a request is not completed in ten days, the National Computer Center Division Chief should be notified and a follow-up telephone request should be made to the service center division chief.

Currently, the National Computer Center accounting function follows up on unprocessed requests periodically (4-5 weeks); this system is not timely and does not account for all replacement tape requests. The follow-up file would alert the National Computer Center management of the problem and serve as a back-up control for service center management.

The National Computer Center Weekly Cycle Input Report should list not only the current week requests for replacement tapes but also prior requests for tapes that have not successfully posted. This report should be sent by facsimile from the National Computer Center Director to all service center directors and the National Office Returns Processing and Accounting Division.

Currently, this report is not cumulative; therefore, it does not highlight unprocessed requests to director level management. Also, the report is not distributed to the National Office. A cumulative report that is also distributed to the National Office would alert top level management of a serious delay (minimum two weeks - maximum three weeks). This should ensure that adverse taxpayer impact is prevented.

The service center Data Control Unit in the Accounting Branch should weekly reconcile the Revenue Receipt Summary Reports to the National Computer Center Accountability Acceptance Vouchers. All unreconciled tapes should be immediately reported to the Computer Services and Accounting Division Chief.

Currently, this reconciliation is not required and management is not advised of unreconciled items. This control would serve division level management as an independent back-up to the National Computer Center Cycle Input Report reconciliation.

Retention periods for input tapes related to requests for replacement should be adjusted to ensure that the tapes are not scratched before the replacement tape successfully posts at the National Computer Center.

Currently, tapes are reused in a routine cycle of approximately 30 days. Regarding reel #301682, an additional problem was experienced which amplified the delay because input tapes were routinely scratched. The operating controls previously recommended should ensure the replacement of tapes within 30 days. However, a special retention control should ensure that in extraordinary circumstances the replacement can be properly created.

MANAGEMENT RESPONSE

The Assistant Commissioner (Returns and Information Processing) is incorporating the recommendations in the Internal Revenue Manual and the National Computer Center Standard Operating Procedures. Attachment V is the Assistant Commissioner's response on this report to the Commissioner.

Walter D. Duvall
Assistant Regional Inspector
(Internal Audit)

ATTACHMENT I

INTERNAL AUDIT REPORT
THE SERVICE NEEDS CONTROLS TO ENSURE PROMPT REPLACEMENT OF UNPROCESSABLE TAPES

Key Events of Untimely Processed FTD Tape:

10/10/84 NCC received the FTD reel which had been timely processed by PSC.

10/12/84 NCC requested a replacement reel from PSC. No one at PSC has acknowledged this contact and there is no documentation of the call at PSC. In addition, there is no acknowledgement or documentation at PSC of follow-up contacts from NCC on 11/19/84 and 12/10/84. NCC has extensive documentation for all contacts.

10/23/84 A Reports Technician from the Data Control Unit at PSC contacted NCC to inquire about the status of the unreconciled reel. NCC advised the technician that the tape was in process. (NCC has no record of this advisement.)

10/25/84 The Chief, Computer Support Section learned of the unprocessed reel from a weekly memo listing unprocessed reels issued by NCC. Instead of scheduling a rerun of the job according to standard procedures, she called NCC to request the return of the original reel which had been returned to PSC's tape library on 10/19/84.

11/27/84 Prompted by an unreconciled NCC monthly report of revenue receipts, two supervisors from Accounting Branch met with the Chief, Computer Support Section to determine the status of the unprocessed reel. The Chief, Computer Support Section located the original reel in PSC's tape library and forwarded it for scheduling.

12/03 - 12/04/84 A resident program analyst at PSC determined that the input tapes necessary to rerun the job had been scratched in accordance with the normal retention of tapes. He corrected the problem on the original reel and copied the data from the original reel onto a replacement reel.

12/06/84 NCC determined that the replacement reel did not contain complete data; therefore, they would not process the reel. The replacement reel was returned to PSC.

12/23 - 12/24/84	The resident program analyst at PSC received the replacement reel and determined that he could take no further action to correct the imbalance.
	Sometime after this date the FTD and Reports Unit Supervisor at PSC identified the missing data which had caused the discrepancy on the replacement reel.
01/08/85	NCC received the same replacement tape that was sent on December 5.
01/15/85	The PSC Director was advised.
01/18/85	After consulting with the resident program analyst at PSC, NCC processed the replacement reel.
	Sometime after this, the missing data was forwarded to NCC and processed in cycle 8506.
02/01/85	PSC stopped the issuance of all balance due notices and began efforts to identify affected taxpayers.
02/07/85	Affected taxpayers were sent letters of apology.
02/15/85	PSC instituted procedures to prevent a recurrence of the problem.

ATTACHMENT II

INTERNAL AUDIT REPORT
THE SERVICE NEEDS CONTROLS TO ENSURE PROMPT REPLACEMENT OF UNPROCESSABLE TAPES

Detailed Chronological Events of Untimely Processed FTD Tape:

10/10/84 WED NCC received Reel 301682 FTD-77-03 from PSC for processing. Before the unprocessed reel was sent to NCC on 10/10/84, the Accounting Branch established a control over the number of items on the tape and amount to be posted in accordance with Internal Revenue Manual and local procedures.

10/12/84 FRI NCC could not process the reel of FTD payments because of a "header problem". (A header is a coded instruction telling the computer what to do with the information on the tape.) NCC called the Computer Support Section at PSC and asked a GS-9 scheduler to provide a replacement tape. There is no record of this request at PSC; the GS-11 Supervisor of the Scheduling Unit was not notified, and the GS-12 Chief of the Computer Support Section was not notified. No steps were taken to create a replacement reel from available input tapes.

NCC Weekly Cycle Input Report was issued to all Service Center Directors indicating problem tapes for the week. The report indicated Reel 301682 had no label.

10/19/84 FRI When the NCC Accountability Acceptance Voucher (See Note) of tapes processed was received, the PSC Data Control Unit in the Accounting Branch identified the unprocessed reel because it had not posted. The PSC Data Control Unit's local procedure is to follow-up on such discrepancies if they are not corrected by the next weekly accounting report.

Note: This weekly computer generated report originates in NCC. The report shows the number of items and dollars processed for each specific reel. The report is sent to PSC and balanced against a log of reels shipped to NCC that is maintained by the Data Control Unit Supervisor.

NCC returned the unprocessed reel to PSC. (The standard procedure is to return problem tapes to the service centers for troubleshooting. This tape is normally not used to create the replacement tape. A replacement tape should be created from original source tapes, and this should have been done by the time the original reel was returned.) A PSC GS-4 tape library technician acknowledged receipt on the same day. The tape transmittal clearly identified the reel as a problem tape.

In a procedure separate from the return of the unprocessed tape, the Office of the Director, PSC, received from NCC the standard weekly report which identified this reel as not processed. Normally, the PSC Director forwards this report to the GS-14 Computer Services and Accounting Division Chief who forwards it to the GS-13 Computer Branch Chief. This particular report was received by PSC but is missing from the Branch Chief's file. There is no record of management's reaction to the report.

10/23/84 TUE The NCC Accountability Acceptance Voucher did not contain the unprocessed tape. A GS-7 reports technician called NCC Production Control (Accounting function) about the status of the unreconciled item. NCC advised the technician that the tape was in process and the technician informed the GS-9 Data Control Unit supervisor. (NCC has no record of this advisement.) No further action was taken by Accounting (PSC) at this time.

10/25/84 THU The PSC GS-12 Computer Support Section Chief called NCC to request that the unprocessed reel be returned. The Section Chief contacted NCC after learning of the unprocessed reel from the standard weekly report of unprocessed reels issued by NCC. The Section Chief does not remember how she received the report. NCC advised that they did not have the reel. (NCC did not have the reel because it was returned to PSC on 10/19.) There is no indication of any further action by the Section Chief to solve the problem.

11/13/84 TUE An in-house notice issued by the support unit to the production control section at NCC advised that the paperwork for the reel was still in the open file and apparently the data had not been replaced. This prompted the NCC call on 11/19/84.

11/19/84 MON NCC called the Computer Support Section at PSC and asked a GS-9 scheduler (not the same one who was originally called on 10/12) to provide a replacement tape. There is no record of this request at PSC; the Scheduling Unit Supervisor was not notified;

the Computer Support Section Chief was not notified. Also, the scheduler does not remember receiving this call.

The Chief, Computer Services and Accounting Division received a standard monthly memo from the Chief, Operations Division at NCC listing the problems encountered in processing reels during October. The memo provides an analysis of specific problems that NCC experienced when processing tapes the previous month. PSC Division and Branch managers use this report to identify patterns of errors made at PSC. The unprocessed reel was identified on this memo. There are no indications of action resulting from this report.

11/20-11/27 The Data Control Unit received a monthly accounting balance report (See Note) and determined that the unprocessed tape still did not post. A reports technician contacted the NCC Accounting function who informed the technician that the original tape was returned to PSC. The Data Control Unit Supervisor notified the GS-9 FTD and Reports Unit Supervisor.

Note: This was the Report on U.S. Internal Revenue Receipts - Service Center Transaction Reports which is generated by NCC. It is shipped in a tape format to PSC where it is printed out by the Computer Branch. It contains the total dollar amounts processed by NCC for an entire month in various categories; e.g., total withheld income tax and FICA collections. Data Control unit balances against this report by totalling the amounts of the dollars contained on the reels shipped to NCC in the appropriate category.

11/27/84 TUE The FTD and Reports Unit Supervisor, the Data Control Unit Supervisor and the reports technician visited the Computer Support Section Chief to determine the status of the replacement tape. The Section Chief found the reel in the tape library. The Section Chief subsequently gave the tape to the GS-11 Scheduling Supervisor who gave it to a GS-12 Resident Program Analyst to correct the problem. The Resident Program Analysts' supervisor was not notified of this action.

11/28/84 WED The GS-13 Accounting Branch Chief was told by the FTD and Reports Unit Supervisor of the situation.

The FTD and Reports Unit Supervisor also visited the Computer Support Section to follow-up on the status of the tape. The Scheduling Supervisor had taken no action.

An Acting Accounting Branch Chief signed the October reconciliation report (See Note) which was the first accountability report to identify the unprocessed tape at the Branch level and above.

Note: This was the Reconciliation of Subsidiary Accounts External to RACS (Form 3997) which is used to balance the general ledger control accounts and summary subsidiary ledger files. The Reciprocal Accounting Control Records (RACRs) and the corresponding general ledger control account balances are included on this report. NCC furnishes the RACR amounts to the service center accounting units where the balancing function is performed. Copies of the RACR balancing report are sent to NCC and attached to the Form 3997. Copies of the Form 3997 with attachments are sent to the appropriate Regional Office and National Office where they are reviewed.

12/03 - MON
12/04/84 TUE The Resident Program Analyst created a replacement tape. Because the source tapes were not available to prepare a replacement tape, the Resident Program Analyst took the extraordinary action of preparing a header on a new tape and copying the unprocessed tape onto the new tape. The source tapes which have a normal retention of four weeks had been routinely scratched.

Note: We have not been able to determine if any action was taken on the original reel from 11/27/84 to 12/3/84.

12/05/84 WED NCC received replacement reel 315589 for processing.

The GS-13 Accounting Branch Chief stated that in early December the GS-14 Quality Assurance and Management Services Division Chief and the GS-14 Acting Computer Services and Accounting Division Chief were notified of a problem with an FTD tape posting. (This is the first indication of Division level management becoming aware of the problem.)

12/06/84 THU NCC could not process replacement reel 315589 because the item and dollar amounts on the tape did not balance to the data control item and dollar amounts.

12/07/84 FRI NCC Resident Program Analyst investigated and confirmed the discrepancy.

12/10/84 MON NCC called the Computer Support Section at PSC, and asked a GS-6 scheduling technician to provide a second replacement tape. There is no record of this request at PSC; the Scheduling Unit

Supervisor was not notified, and the GS-12 Chief, Computer Support Section was not notified. The scheduling technician denied that the request was made.

NCC Weekly Cycle Input Report Memorandum was issued and indicated tape 315589 was not processed.

12/14/84 FRI NCC returned the replacement reel.

12/17/84 MON PSC received the replacement reel.

Also, the Director, PSC received the NCC weekly report of unprocessed tapes. The Director sent it to the Computer Services and Accounting Division Chief who sent it to both the Computer and the Accounting Branch Chiefs.

There is no indication that management reacted to the unprocessed tape. This NCC report would not, and did not, identify the unprocessed tape as a replacement tape and did not identify the date of the original October request.

About this time, during the preparation of the November monthly reconciliation report (Form 3997) in the Accounting Branch, the GS-9 supervisor of the Journal and Ledger Unit notified the FTD and Reports Unit Supervisor of the unprocessed reel. The FTD and Reports Supervisor advised that the problem was being solved and no further action was necessary.

12/23 - SUN
12/24/84 MON The PSC Resident Program Analyst received the replacement tape and determined that he could take no further action to correct the imbalance. No additional work was done.

Note: We have not been able to determine whether any action was taken on the replacement tape from 12/17/84 to 12/23/84. Also, there is no indication why the replacement tape was not returned to NCC until 1/3/85.

Sometime after this, the FTD and Reports Unit Supervisor identified 1,362 missing accounts with $7.5 million in FTD's. We were advised that the imbalance on the replacement tape could have occurred for many reasons, and we were unable to determine the specific reason.

	The Computer Branch Chief, who has responsibility for ensuring that replacement tapes are timely processed, advised that just before December 25, either the Division Chief or the Accounting Branch Chief advised him of the problem for the first time. Also, near the end of December, the Computer Branch Chief and the GS-13 Receipt and Control Branch Chief switched positions.
12/26/84 WED	The Accounting Branch Chief signed the November monthly reconciliation report (Form 3997). This was the second report identifying the unprocessed tape. There was no indication that the Branch Chief either noticed or reacted to the unprocessed October tape.
01/03/85 THU	The PSC Resident Program Analyst called NCC and advised that he would be sending the replacement reel back.
	The Assistant Director PSC advised that, in an early January daily production meeting, the unprocessed tape was mentioned as a problem that was under control. Specific details of the problem, such as the age of the tape, were not provided to the Assistant Director.
01/04/85 FRI	Another in-house notice at NCC (See 11/13) was issued. No follow-up action was taken since a telephone call on 1/3/85 was received.
01/08/85 TUE	NCC received the replacement tape.
01/10/85 THU	The FTD and Reports Unit Supervisor began getting calls from banks about unposted payments. The Accounting Branch Chief was notified of this activity. There is no indication of any earlier contacts from banks or taxpayers which would have surfaced this problem in Collection, Adjustments, or the Problem Resolution Program at PSC.
01/12/85 SAT	NCC was unable to process the tape for the same imbalance condition that existed on 12/06/84.
01/14/85 MON	Prompted by phone calls from banks, the FTD and Reports Unit Supervisor notified the Accounting Branch Chief in writing of the continuous problem with the unprocessed tape.
01/15/85 TUE	The Director, PSC was advised of the situation.
01/14/85 MON thru 01/17/85 THU	A second NCC Resident Program Analyst investigated and confirmed the tape discrepancy which was previously identified on 1/12/85.

01/18/85 FRI NCC discussed the imbalance with the PSC Resident Program Analyst who coordinated with the FTD and Reports Unit Supervisor. The FTD and Reports Unit Supervisor, with approval from the National Office Cash Management Section, verified the imbalance to be accepted. The tape was run and posted.

In Cycle 8504 (the end of January) the imbalance tape posted. In Cycle 8506 (two weeks later) the 1,362 remaining accounts identified by the FTD And Reports Unit Supervisor posted to the Master File at NCC.

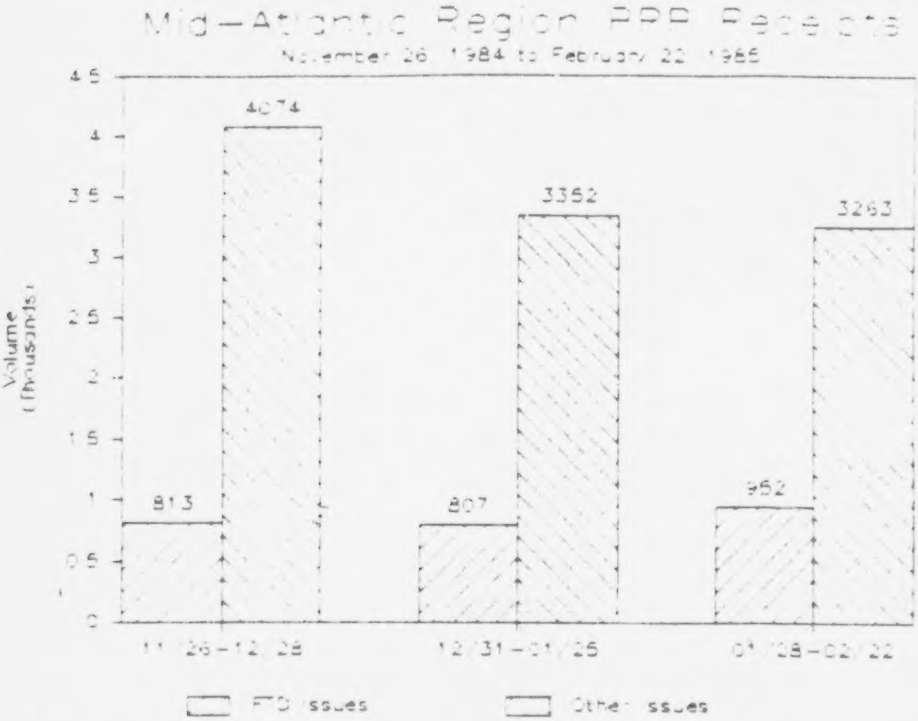
02/01/85 MON PSC stopped the issuance of all balance due notices and began efforts to identify affected taxpayers.

02/07/85 THU Affected taxpayers were sent letters of apology.

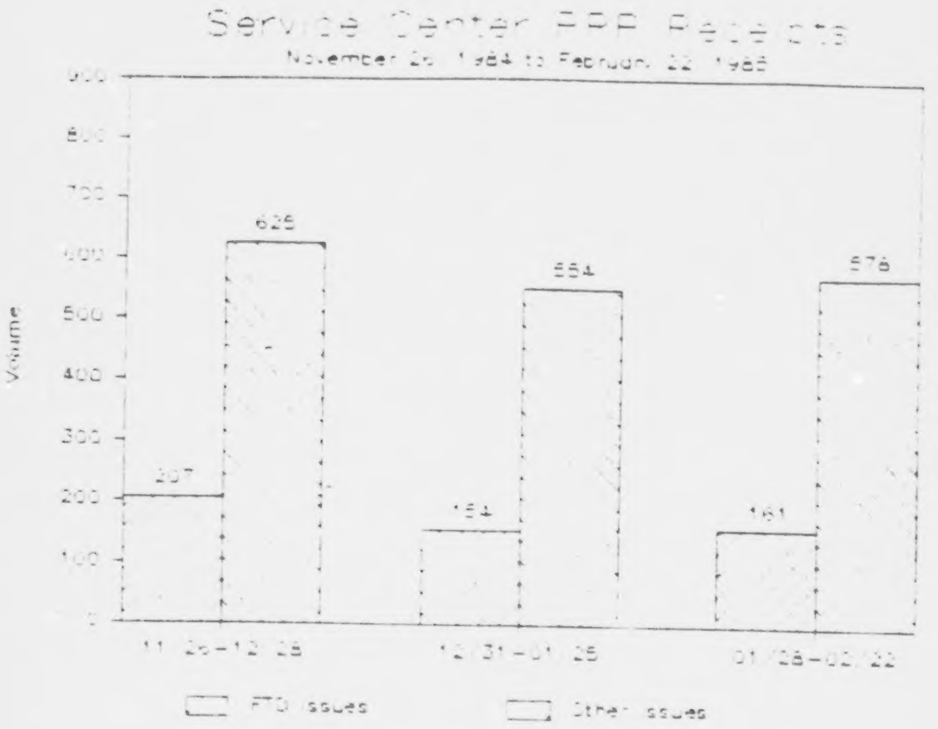
02/15/85 FRI PSC instituted procedures to prevent a recurrence of the problem.

ATTACHMENT III

PROBLEM RESOLUTION PROGRAM RECEIPTS



PROBLEM RESOLUTION PROGRAM RECEIPTS



ATTACHMENT IV

Detailed Objectives and Scope of Review

The overall objectives of our review were to determine the effectiveness of controls over the processing of replacement tapes, to reconstruct the sequence of events and assess the control breakdowns at the Philadelphia Service Center associated with the FTD tape that was not processed for three months, and to determine the effectiveness of controls over the recovery program at the Philadelphia Service Center to correct those taxpayers' accounts which were erroneously affected by the unprocessed tape.

Philadelphia Service Center

To assess the effectiveness of controls and procedures over replacement tape requests, and to reconstruct the sequence of events related to the specific FTD tape problem we:

1. interviewed all Philadelphia Service Center managers in the Computer Branch and Accounting Branch, and all operating personnel in both branches who were involved in the replacement tape process to determine:
   a. the existing procedures related to requests for replacement tapes; and,
   b. the sequence of events which occurred relative to the specific tape in question.
2. interviewed senior level managers at the Philadelphia Service Center to determine when and how they learned of the problem and what actions they took to correct the problem after it surfaced.
3. reviewed all available documentation related to the processing of the specific tape in question.
4. researched the Internal Revenue Manual to determine specific procedures related to the processing of requests for replacement reels.

To assess whether Internal Audit's initial recommendations were implemented at the Philadelphia Service Center after we became involved we:

1. interviewed the Computer Support Section Chief.

2. interviewed the Accounting Branch Data Control Unit Supervisor.

3. reviewed the SC-MA Memorandum issued in response to Internal Audit's recommendations.

4. observed the implementation of the procedures.

To determine whether all taxpayers were identified for the recovery program we:

1. interviewed appropriate managers both directly and indirectly involved with the recovery process.

2. obtained the original FTD coupons for all transactions which were manually identified as being part of the recovery program (1362 transactions).

3. created a database of these 1362 cases using the Informix application on Internal Audit's Zilog. For each case we input:

    a. taxpayer's name

    b. type of return

    c. tax period

    d. amount of payment

4. obtained the available Optical Character Recognition (OCR) printout of all 1362 cases.

5. compared the manually prepared listings used in the recovery program with the listings on the computer printout.

6. verified all variances with the Zilog data base.

7. researched the names and addresses of all taxpayers who were part of the FTD tape problem but were not included on the manually prepared list.

8. provided information on the accounts we identified to the Director, PSC, Chief, Collection Branch, and Chief, Adjustment/Correspondence Branch.

To determine whether cases are being properly resolved we:

1. selected for review 776 cases from the total population of 28,835 transactions. The cases were sampled in eleven different categories to provide a representative selection of the population. We reviewed 599 cases in which sufficient data was available to determine whether taxpayers' accounts were being properly resolved.

2. researched IDRS and MFTRA transcripts to determine whether:

    a. taxpayers' payments posted properly,

    b. action was taken to assure that taxpayers would not receive additional erroneous bills and notices,

    c. action was taken to assure erroneous interest and penalties were abated,

    d. taxpayers whose accounts are out of the Mid-Atlantic Region have their accounts properly controlled,

    e. any other adverse action occurred on these affected taxpayers' accounts.

To determine the role of the Problem Resolution Officer during the recovery process we:

1. interviewed Problem Resolution Officers in the Mid-Atlantic Region, and the Philadelphia, Baltimore, Pittsburgh, Wilmington, and Foreign Operations Districts.

2. obtained monthly reports between November, 1984 and February, 1985 from the Mid-Atlantic Region and the Philadelphia Service Center detailing the types and volumes of PRP cases received.

3. Analyzed Problem Resolution Program receipts related to 941 issues and to all other issues.

4. reviewed the latest Regional visitation report.

5. reviewed functional reports prepared in 1985 by the Problem Resolution Officer at PSC for the Adjustment/Correspondence Branch.

To assess the experience and training of personnel at the Philadelphia Service Center who were involved with the FTD tape problem we:

1. analyzed the personnel records of 49 Accounting Branch employees and 105 Computer Branch employees.
2. interviewed managers in the Personnel Branch at the Philadelphia Service Center.
3. interviewed selected managers and reviewed associated training documents for these managers
4. scheduled all reassignments in both the Accounting Branch and Computer Branch within the past year.

Austin Service Center and Kansas City Service Center

To determine whether controls over replacement tapes were effective we:

1. interviewed appropriate managers and operations personnel in the Computer and Accounting Branches; and,
2. reviewed the existing controls and any recently implemented controls over processing requests for replacement tapes from the National Computer Center.

National Computer Center

To determine whether controls over replacement tapes were effective we:

1. interviewed appropriate managers in the Operations Division and the Processing Validation Branch; and,
2. reviewed the prior and current controls outlined in the National Computer Center's Standard Operating Procedures.

To determine the number of magnetic tapes physically replaced by the service centers and to calculate the time required to process each tape we:

1. identified from the National Computer Center's Weekly Cycle Input Reports, for a 60 week period (Cycles 8403-8452 and 8503-8512), all replacement tape requests which contained money transactions to be posted to the Individual or Business Master File Account; and,
2. determined the length of time to process the replacement tape by tracing each replacement tape request through its final processing.

ATTACHMENT V

Internal Revenue Service
memorandum

date: APR 19 1985

to: Commissioner C

from: Assistant Commissioner (Returns and Information Processing) D:R

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subject: Internal Audit Report "The Service Needs to Ensure Prompt Replacement of Unprocessable Tapes"

We have reviewed the draft report and generally agree with the findings and recommendations. The statements that follow contain the details of our response and the corrective actions we will take as a result of your review. The identity of finding and assessment of cause presented for Internal Audit's "overall recommendation" also covers the three recommendations on page 9, recommendation 1 on page 10 and the two recommendations on page 11.

Although not included in a specific recommendation, a need for a formal training program was identified for the service center, Computer Support Section. This need was also recognized by the Returns Processing and Accounting Division (RP&A) in mid 1984. A formal training project was initiated in August of 1984 by the RP&A and Training and Development Divisions. The first result of this project was a formal classroom training for Service Center Computer Branch schedulers. Two training classes have already been conducted at the Brookhaven Service Center with participants from all centers. Additional traininig programs are being developed for other Computer Branch personnel. Completion of these additional courses are expected before the end of the year.

Additionally, an executive level task force has been established to study the Service Center Computer Branch organization. They expect to have a Training representative participate in the study. In their review they will consider the training needs of the Service Center Computer Branch and whether the training programs being developed meet those needs.

Identity of Finding (Page 1 and 4)

Local standard operating procedures for responding to National Computer Center (NCC) requests for replacement tapes either did not exist or were not followed at Philadelphia Service Center (PSC). Further, there were no written procedures, at the National Office level which address the timely creation and shipment of replacement tapes to NCC. Once aware of the problem, various levels of management at PSC failed to take timely and necessary actions to have a replacement tape created and shipped.

Commissioner C

Assessment of Cause

NCC's Standard Operating Procedures were effective in immediately requesting a replacement tape from PSC as well as generating repeated follow-ups. National Office (N.O.) revenue receipts balancing procedures also identified the unprocessed tape. However, none of the procedures achieved the timely replacement of the unprocessable tape. The cause of the problem was the ignoring and failing to follow through on local, NCC, and N.O. procedures by PSC operating personnel and management.

Corrective Actions

Internal Audit Recommendation (Page 8) - Internal Audit has recommended that written National Office procedures be established to ensure the timely processing of replacement tapes and the involvement of appropriate management officials when replacement delays will adversely impact on taxpayers.

Response - We agree with Internal Audit's "overall recommendation" and are in the process of incorporating most of their specific recommendations into appropriate Internal Revenue Manuals. Comments or corrective actions on each of the specific recommendations follow.

Internal Audit Recommendation (Page 9 Recommendation #1) - A specific telephone number and an accountable position at each service center should be provided to the National Computer Center for making initial requests for replacement tapes.

Response - We agree with the recommendation as presented. Implementing instructions have been included in a revision to IRM 2800, Data Processing Services, which is now in clearance. (Responsible Official: Chief, Management and Resources Branch, D:R:R:M, Completion Date: May 15,1985)

Internal Audit Recommendation (Page 9 Recommendation #2) - A sequentially numbered memorandum of contact containing all relevant information should be prepared by the person receiving the request. The contact memorandum should then be given to the Computer Support Section Chief.

Response - We agree with the recommendation as presented. Implementing instructions have been included in a revision to IRM 2800, Data Processing Services, which is now in clearance. (Responsible Official: Chief, Management and Resources Branch, D:R:R:M, Completion Date: May 15, 1985)

Commissioner C

Internal Audit Recommendation (Page 9 Recommendation #3) - The Computer Support Section Chief should maintain a log corresponding to the numbered memorandum of contact. The log should contain the date of the request, the number of the reel to be replaced, the name of the person responsible for replacing the tape, the date shipped to the National Computer Center, and the date successfully processed at the National Computer Center.

Response - We agree with the recommendation as presented. Implementation instructions have been included in a revision to IRM 2800, Data Processing Services, which is now in clearance. (Responsible Official: Chief, Management and Resources Branch, D:R:R:M, Completion Date: May 15, 1985)

Internal Audit Recommendation (Page 10 Recommendation #1) - The service center director should forward to the Computer Branch Chief all National Computer Center Cycle Input Reports which list requests for replacement tapes. Each week the branch chief should reconcile this report to the log maintained by the computer support section chief. All uncompleted requests should be immediately reported to the Computer Services and Accounting Division Chief.

Response - We agree with the recommendation as presented. Implementing instructions have been included in a revision to IRM 2800, Data Processing Services, which is now in clearance. (Responsible Official: Chief, Management and Resources Branch, D:R:R:M, Completion Date: May 15, 1985)

Identity of Finding (Page 7)

NCC maintained a system that documented and controlled telephone requests for replacement tapes. They also provided service center directors with a weekly report of all tapes that could not be processed that week. NCC did not, however, follow up on replacement tapes request until four to five weeks after the original request was made.

Assessment of Cause

In 1984, NCC did not have time standards for service center replacement follow ups. In accordance with IRM 2800, Data Processing Services, and standard operating procedures at NCC, service centers were contacted immediately when replacement tapes were necessary. An entry to that effect was placed in the Operations Journal Log (a diary of significant events maintained in the Production Control Office at NCC). NCC returned problem tapes to the service centers within a week, identified all unprocessed tapes in a Weekly Cycle Input Report, and summarized tape problems in a Monthly Problem Tape Summary.

If service center tape control documents were received and no corresponding original tape or replacement tape was processed within four-five weeks, followup action was initiated by NCC's Processing Validation Branch. These activities were designed and communicated as information to assist the service centers in problem resolution or correction. However, NCC had not established a ten-day time standard for followup action. Responsibility for tape replacement had (in accordance with IRM 2800, Data Processing Services, section 2852) rested with the service center as originator of a problem tape.

Corrective Action

Internal Audit Recommendation (Page 10 Recommendation #2) - The National Computer Center should maintain a file in date order of requests for replacement tapes. If a request is not completed in ten days, the National Computer Center Division Chief should be notified and a follow-up telephone request should be made to the service center division chief.

Response - The National Computer Center maintains a Journal in which significant events that affect computer processing are logged in date and time sequence. Tape problems and replacement requests are documented in this log. This journal proved to be a valuable, primary source of information used by NCC and Internal Audit to recreate the chronology of events in the Internal Audit Report. NCC documents all tapes not input to the weekly Master File processing in the Weekly Cycle Input Report which is sent to the service center directors via facsimile each Monday (within three days of the weekly cycle cutoff on Friday).

On March 26, 1985 the NCC Chief, Production Control Section, was tasked with providing the NCC Director with a followup report for all tapes appearing on the prior week's Cycle Input Report. Tapes not replaced within ten days will be identified as "outstanding" items. The NCC Director will notify the appropriate service center director if a service center tape replacement has not been received timely. These new responsibilities were incorporated into NCC Standard Operating Procedure No. ADP (3)346-88 on 4/4/85. (Action Completed)

Identity of Finding (page 10)

The NCC Weekly Cycle Input Report is not cumulative; therefore, it does not highlight unprocessed requests to director level management. Also, they report is not distributed to the National Office. A cumulative report that is also distributed to the National Office would alert top level management of a serious delay (minimum two weeks - maximum three weeks). This should ensure that adverse taxpayer impact is prevented.

Commissioner C

Assessment of Cause

NCC included the original and replacement PSC tapes one time each on the Weekly Cycle Input Report. This report was mailed to the service center directors and the Director, Returns Processing and Accounting Division each Monday in 1984. The NCC Weekly Cycle Input Report has since been designed to identify tapes not input to the current cycle. This report identifies tapes requiring replacement as well as other problems - tapes received too late for processing into the current cycle, tapes with incorrect or missing control documents, tapes incorrectly sent to NCC, etc. NCC did not prepare a cumulative Weekly Cycle Input Report in 1984.

Additional entries on subsequent reports might have resulted in the service centers sending duplicate input to NCC. If a replacement tape were in transit from a service center at the time the report was prepared, the service center might incorrectly assume that an additional replacement was needed.

Corrective Action

Internal Audit Recommendation (Page 10 Recommendation #3) - The National Computer Center Weekly Input Report should list not only the current week requests for replacement tapes but also prior requests for tapes that have not successfully posted. This report should be sent by facsimile from the National Computer Center Director to all service center directors and the National Office Returns Processing and Accounting Division.

Response - Effective February 11, 1985, NCC's Production Control Section Chief began sending the Weekly Cycle Input Report via facsimile to all service center directors. As identified in the previous response, the NCC Director receives a Followup Report each Monday (ten days after the cycle cutoff and seven days after the original Weekly Cycle Input Report). All items appearing on the prior week's Cycle Input Report are normally resolved on this report. If a tape replacement is not received within one week (or if any other problem occurs which causes a tape not to be posted to the Master File within one week of receipt) the Followup Report identifies the tape as an "outstanding" problem. "Outstanding" tapes are carried forward on the Followup Report until the problem is resolved. The NCC Director can use the report to contact the appropriate service center director after a one-week delay in tape replacement. He can use the report to contact the Assistant Commissioner (Returns and Information Processing) after an additional week's delay. These responsibilities were added to NCC Standard Operating Procedure No. ADP (3)346-88 on 4/4/85. (Action Completed)

Internal Audit Recommendation (Page 11 Recommendation #1) - The service center Data Control Unit in the Accounting Branch should weekly reconcile the Revenue Receipt Summary Reports to the National Computer Center Accountability Acceptance Vouchers. All unreconciled tapes should be immediately reported to the Computer Services and Accounting Division Chief.

Response - We agree with the recommendation as presented and will incorporate necessary instructions in the next revision of IRM 3(17)(30)0, Service Center Data Controls. (Responsible Official: Chief, Revenue and Accounting Branch, D:R:R:R, Completion Date: July 1, 1985)

Internal Audit Recommendation (Page 11 Recommendation #2) - Retention periods for input tapes related to requests for replacement should be adjusted to ensure that the tapes are not scratched before the replacement tape successfully posts at the National Computer Center.

Response - We agree with the recommendation as presented. Implementing instructions have been included in a revision to IRM 2800, Data Processing Services, which is now in clearance. (Responsible Official: Chief, Management and Resources Branch, D:R:R:M, Completion Date: May 15, 1985)

Concurrence: ______________________ Date: 4/19/85
Associate Commissioner
(Data Processing)

Chairman Pickle. Thank you, Mr. Flippo.

Mr. O'Hanlon, I wish you would stay at the table because I have questions for you. But I want to yield to Mr. McGrath if he has questions.

Mr. McGrath. Thank you, Mr. Chairman.

At the outset, let me ask unanimous consent to put a statement in the record, after Mr. Schulze's statement and prior to the questioning of the IRS.

Chairman Pickle. Fine.

Mr. McGrath. This afternoon we have been taken through a litany of problems which occurred at the Philadelphia Service Center. And you have given us apologies for the inconvenience and for the problems attendant to it. You have given us recommendations which seem plausible to correct the problem.

There is an ongoing internal audit in progress, and certainly I believe that there will be additional recommendations to help the administration of the problem when that is completed.

I am satisfied that the Service is doing, at this point in time, all it can to correct the problem which is of horrendous proportions.

Let me ask you this one question. Say there were more levies than just the five that were reported. Say that there were many more. Does the IRS have any legal liability for unjustified levies arising from such as the one at the Philadelphia Service Center?

Mr. Egger. I don't believe so, other than to make——

Mr. McGrath. Say some of the 26,000 taxpayers decided to sue you assuming all those levies were unjustified?

Mr. Egger. I can't answer the question of what disposition might happen with that.

Mr. McGrath. What would your position be?

Mr. Egger. Well, we have done everything we can to correct those errors, as I have said on the record and otherwise, and I do not know what else we might do.

We recognize that this is not only embarrassing, inconvenient, and frustrating to taxpayers, and obviously we don't want it to happen, but I am not sure what else we can do.

Mr. McGrath. Perhaps I am not making myself clear.

What is the position of the IRS when it finds itself in a position of being potentially liable? What do you do? Do you have general counsels who protect you?

Mr. Egger. If we have liability, obviously we are going to——

Mr. McGrath. The question is, to what extent are you liable?

Mr. Egger. I am not sure I can answer that question, Mr. McGrath. There hasn't been any need to address that up to date, but I certainly would do so with the Department of Justice if that should arise.

Mr. McGrath. Thank you.

Just looking over the cases in inventory in correspondence, the center closest to my home is, No. 1, on the list with 208,076 cases.

Is there any good reason why Brookhaven should be that far ahead of even Philadelphia, which is the center of our discussions today?

Mr. Egger. Well, it is probably larger, for one; and secondly, that particular service center has had a fairly large number of problems that grew out of the conversion system that I mentioned.

We are working very closely with them. We have had the vendor's experts there and I think we are turning the corner rapidly up there in that center.

Mr. McGrath. Thank you, Mr. Chairman.

[The following was subsequently received:]

·YMOND J. McGRATH
[illegible] DISTRICT, NEW YORK

MEMBER
COMMITTEE ON
WAYS AND MEANS
CHAIRMAN
REPUBLICAN TASK FORCE ON
HEALTH AND ENVIRONMENT

Congress of the United States
House of Representatives
Washington, DC 20515

WASHINGTON OFFICE
ROOM 205
CANNON HOUSE OFFICE BUILDING
(202) 225-[illegible]

DISTRICT OFFICE
203 ROCKAWAY AVENUE
VALLEY STREAM, NY 11580
(516) 872-9550

March 13, 1985

Commissioner Egger
Internal Revenue Service
Internal Revenue Building
1111 Constitution Ave.
Washington, D.C. 20224

Dear Commissioner Egger:

Let me initially thank you and your staff for the cooperation and helpfulness extended to the Subcommittee on Oversight concerning the Philadelphia Service Center problem, in particular your fine testimony. During the hearing I posed a question to you which I believe was not fully understood. I am writing to clarify the question for you.

Specifically, I would like to know whether there is any circumstance whereby either or both the Internal Revenue Service or its employees may be held liable for damages incurred by taxpayers as a result of erroneous actions like the one which occured with respect to the Philadelphia incident wherein levies were imposed on taxpayers mistakenly. For example, banks might have charged customers fees as a result of the levies which were imposed. If the government does not reimburse taxpayers in these instances, can you explain the rationale for this position?

I look forward to working with you further in the resolution of the Philadelphia situation and in connection with other oversight matters. In particular, I look forward to the response to the question which I have raised here.

Sincerely,

Ray

Raymond J. McGrath
Member of Congress

RJM:kjk

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

APR 22 1985

The Honorable Raymond J. McGrath
House of Representatives
Washington, D.C. 20515

Dear Mr. McGrath:

Thank you for your letter of March 13, 1985, and for the opportunity of addressing the issue of the potential liability of the Service and its employees for certain collection activities undertaken at the Philadelphia Service Center. While the rule of "sovereign immunity" relieves the IRS from liability for damages (such as the bank service charges you mentioned), taxpayers may file a claim under the Small Claims Act (31 USC 3723). That act gives me discretionary authority to pay certain claims.

The United States and its agencies are generally immune from suit under the doctrine of sovereign immunity. That is, the United States may be sued only to the extent that it has consented to suit by means of an express statutory waiver. The Federal Tort Claims Act (FTCA) is a limited waiver of sovereign immunity. This statute allows a suit for damages against the United States for injury or loss of property caused by the negligence or wrongful act or omission of any U.S. employee acting within the scope of his or her employment (28 USC 1346(b), 2671-2680). However, when enacting the FTCA in 1946, Congress saw fit to exclude all claims "arising in respect of the assessment or collection of any tax ... ." (28 USC 2680(c)). The courts have uniformly interpreted section 2680(c) very broadly and have also held that it bars any damage suit under the FTCA for wrongful levy by IRS agents.

Another limited waiver of sovereign immunity is section 7426 of the Internal Revenue Code. This statute allows suit against the United States for wrongful levy, provided the individual bringing the action is not the person whose tax liability gave rise to the levy. This statute was intended to cover the situation where a third party, not the taxpayer, claims an interest in the property subject to the levy. It would appear that section 7426 is not applicable in the present case as the businesses subjected to the levies were not third parties, as required by the statute, but rather the companies whose apparently unsatisfied tax liability gave rise to the levies.

Despite the general rule of governmental immunity under the FTCA as to the specific circumstances of these cases, the government does have the discretion to pay certain claims against the United States not exceeding $1,000.00 under the Small Claims Act (31 USC 3723). This act allows the head of an agency to settle a claim "... caused by the negligence of an officer or employee of the United States Government acting within the scope of employment." These claims are reviewed on a case-by-case basis. We have enclosed a copy of Form 5646, which can be used to file a claim under this Act. While this form was developed for use under the FTCA, it is also suitable for use under the Small Claims Act.

As to any individual liability of IRS employees, we note that the courts have consistently held that federal employees acting in the outer perimeter of their official duties are entitled to absolute immunity protection where common law torts are alleged. We also do not anticipate any liability on the part of our employees with respect to any suits brought for alleged violations of constitutional rights. We note that the basis of any such action would certainly be the alleged taking of property without due process of law contrary to the Fifth Amendment. However, the Supreme Court has held that the post-levy remedies provided by 28 USC 1346(a)(1) satisfy the requirements of due process. Moreover, the Supreme Court has held that government officials generally are shielded from liability for civil damages insofar as their conduct does not violate clearly established constitutional rights of which a reasonable person would have known.

Since discovering the erroneous collection notices and levies the Service has moved promptly to rectify this unfortunate situation. We will continue to afford priority treatment to this matter until it is totally resolved. Your interest in this matter is appreciated.

With kind regards,

Sincerely,

Roscoe Egger

Enclosure

Claim for Damage, Injury, or Death

In compliance with the Privacy Act of 1974, the following is provided. Solicitation of the information is authorized by Title 28 U.S.C. 2672, 28 CFR 14.11. Disclosure of the information is voluntary.

The principal purposes are:

(1) To provide necessary data for use by legal counsel in any legal actions resulting from the accident.

(2) Routine use of the information will be made by Federal, State, or local governments, or agencies, when relevant to civil, criminal, or regulatory investigations or prosecutions.

An employee of a Federal agency who fails to report accurately a motor vehicle accident involving a Federal vehicle may be subject to administrative sanctions.

Effect of Nondisclosure: If the information is not provided, processing of this claim may not be possible.

Instructions Prepare in ink or typewriter. Please read carefully the instructions on the reverse side of this form and supply the information requested on both sides. Use additional sheet(s) if necessary.

1. Submit to Chief, Space and Property Branch RM:FM:S Internal Revenue Service 1111 Constitution Avenue, N. W. Washington, D. C. 20224	2. Name and Address of Claimant *(Number, street, city, State, and Zip Code)*

3. Place of Accident *(Give city or town and state; if outside city limits, indicate mileage or distance to nearest city or town)*	4. Date and Day of Accident	5. Time *(A.M. or P.M.)*

. Amount of Claim *(in dollars)*

. Property damage	b. Personal injury	c. Wrongful death	d. Total

. Description of Accident *(State below, in detail, all known facts and circumstances attending the damage, injury, or death, identifying persons and property involved and the cause thereof)*

. Name of Internal Revenue Service employee involved in accident:

. Property Damage

. Name and address of owner, if other than claimant *(Number, street, city, State, and Zip Code)*

. Briefly describe kind and location of property and nature and extent of damage *(See instructions on reverse side for method of substantiating claim)*

0. Personal Injury – State nature and extent of injury which forms the basis of this claim

1. Witnesses – Name and address *(Number, street, city, State, and Zip Code)*

certify that the amount of claim covers only damages and injuries caused by the accident above and agree to accept said amount n full satisfaction and final settlement of this claim.

2. Signature of Claimant *(This signature should be used in all future correspondence)*	13. Date of Claim

Civil Penalty for Presenting Fraudulent Claim The claimant shall forfeit and pay to the United States the sum of $2,000, plus double the amount of damages sustained by the United States. *(See R.S. §3490,5438; 31 U.S.C. 231.)*	Criminal Penalty for Presenting Fraudulent Claim or Making False Statements Fine of not more than $10,000 or imprisonment for not more than 5 years or both. *(See 62 Stat. 698,749; 18 U.S.C. 287,1001.)*

Form 5846 (Rev. 10-78)

Department of the Treasury - Internal Revenue Service

Instructions

Complete all items—Insert the word NONE where applicable

Claims for damage to or for loss or destruction of property, or for personal injury, must be signed by the owner of the property damaged or lost or the injured person. If, by reason of death, other disability or for reasons deemed satisfactory by the Government, the foregoing requirement cannot be fulfilled, the claim may be filed by a duly authorized agent or other legal representative, provided evidence satisfactory to the Government is submitted with said claim establishing authority to act.

If claimant intends to file claim for both personal injury and property damage, claim for both must be shown in item 8 of this form. Separate claims for personal injury and property damage are not acceptable.

The amount claimed should be substantiated by competent evidence as follows:

(a) In support of claim for personal injury or death, the claimant should submit a written report by attending physician, showing the nature and extent of injury, the nature and extent of treatment, the degree of permanent disability, if any, the prognosis, and the period of hospitalization, or incapacitation, attaching itemized bills for medical, hospital, or burial expenses actually incurred.

(b) In support of claims for damage to property which has been or can be economically repaired, the claimant should submit at least two itemized signed statements or estimates by reliable, disinterested concerns, or, if payment has been made, the itemized signed receipts evidencing payment.

(c) In support of claims for damage to property which is not economically reparable, or if the property is lost or destroyed, the claimant should submit statements as to the original cost of the property, the date of purchase, and the value of the property, both before and after the accident. Such statements should be by disinterested competent persons, preferably reputable dealers or officials familiar with the type of property damaged, or by two or more competitive bidders, and should be certified as being just and correct.

Any further instructions or information necessary in the preparation of your claim will be furnished, upon request, by the office indicated in item #1 on the reverse side.

Insurance Coverage

In order that subrogation claims may be adjudicated, it is essential that the claimant provide the following information regarding the insurance coverage of his vehicle or property.

14. Do You Carry Accident Insurance? ☐ Yes, If Yes, Give Name and Address of Insurance Company *(Number, street, city, State, and Zip Code)* and Policy Number ☐ No

15. Have You Filed Claim on Your Insurance Carrier in this Instance, and if so, is it Full Coverage or Deductible?	16. If Deductible, State Amount

17. If Claim Has Been Filed With Your Carrier, What Action Has Your Insurer Taken or Proposes to Take with Reference to Your Claim? *(It is necessary that you ascertain these facts)*

18. Do You Carry Public Liability and Property Damage Insurance? ☐ Yes, if Yes, Give Name and Address of Insurance Carrier *(Number, street, city, State, and Zip Code)* ☐ No

GPO 933 993 Form 5646 (Rev. 10-78)

Chairman PICKLE. Thank you, Mr. McGrath.

Now, Mr. Commissioner, Mr. O'Hanlon, I have some questions for you.

You said you became aware of the problem in Philadelphia around January 24. Is that basically correct?

Mr. O'HANLON. I became aware of it, Mr. Chairman——

Chairman PICKLE. Or shortly after?

Mr. O'HANLON. On January 30.

Chairman PICKLE. January 30. So the Philadelphia case now, the Philadelphia ombudsman knew about it the 24th and you knew about it a week later?

Mr. O'HANLON. That is right.

Chairman PICKLE. That is 4 months after this started, right?

Mr. O'HANLON. Right.

Chairman PICKLE. It has been in the newspapers, smeared all across the land, but you knew about it only on January 31?

Mr. O'HANLON. Yes.

Chairman PICKLE. That is about the first time. OK.

Now, did you know whether any of the 26,000 taxpayers who were affected by this problem in the Philadelphia office had contacted the Philadelphia office, your office, of, what do you call it?

Mr. O'HANLON. Problem resolution.

Chairman PICKLE. Did they contact them up there?

Mr. O'HANLON. We contacted them and the first that any problem resolution office had an indication there was a problem was early to mid-January when the taxpayers received the notices.

Chairman PICKLE. I heard that calls had been made to your taxpayer relations branch office somewhere in December, fairly early in December. It was common knowledge that we had a problem at that time, and you did not know anything about it.

Mr. O'HANLON. Did not know, Mr. Chairman.

Chairman PICKLE. What I am trying to establish is, did your people in Philadelphia know about it at least by the end of December when the complaints were coming in.

Mr. O'HANLON. In searching back through as to when Philadelphia first knew about it through the problem resolution system, the best I can determine at this time was in early January.

Chairman PICKLE. We have put a person in the Philadelphia office as a representative of the taxpayers relation branch to try to ferret out and detect these difficulties and report them to you.

It is not a matter of the horse getting out and then you have to try to catch him in the pasture somewhere. You are supposed to detect the weakness in the door or wall before they get out. That is what you are there for. That is what you are here in Washington for.

Yet, it is just like the old lover: You are the last to know it. On the surface of the matter, it looks to me like you were the last to know about it.

Now, aren't you supposed to detect these things?

Mr. EGGER. Mr. Chairman, before he answers that, and I would like him to do that, of course, but I want to be sure there is understanding among the committee members as to the problem resolution program itself.

This is a program to resolve problems that are not resolved in the normal course. In other words, if the system is faulty or breaks down or something. So typically, our information would come from the taxpayers asking for problem resolution assistance, or from a service employee who identified a problem that met Problem Resolution Program criteria.

This is not a case of like internal audit and so on where the——

Chairman PICKLE. I don't know that I can say Mr. O'Hanlon or the Philadelphia man would cure the problem, because it has to be reported. But you are there to detect these things and work them out. You should have found that out earlier.

Mr. SCHULZE. I understand that part of the ombudsman's charge is to detect systematic problems; is that correct?

Mr. O'HANLON. That is correct.

Mr. SCHULZE. This obviously was a systematic problem, wasn't it?

Mr. O'HANLON. Right.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman PICKLE. Have you been involved, Mr. O'Hanlon, in preparation of the internal audit review with respect to the recommendations or findings?

Mr. O'HANLON. Yes, in that I have provided information to our internal auditors, Mr. Chairman.

Chairman PICKLE. And you think you will not get that out for another 4 or 5 weeks?

Mr. O'HANLON. That is the estimate now.

Chairman PICKLE. All right.

Now, I am going to ask you the same question—perhaps Mr. Egger would be the one to answer it.

But we have a tremendous backlog of inventory cases—944,000 according to my figure—which is triple the same time a year ago. Obviously that is too high and perhaps caused by the changeover.

It is a lot heavier in the Philadelphia district than a lot of other districts, perhaps because the Philadelphia district is larger, but it could be because of personnel.

Have you conducted a study and made a report on how the Service should deal with the quality and timing of responses to taxpayers' correspondence? Have you actually got a study under way?

How do you do this better, faster, more efficiently? Is there a study under way on that?

Mr. EGGER. We have done a number of things.

First of all, we have in process a program to create a computer based correspondence system in each of our districts and in each of the service centers. That will be fully in place around the country by the end of 1985.

In addition, we are working very hard to eliminate the computer system problems which are causing the holdup. In other words, a part of the problem is that we cannot get into the system—that is, the IDRS system—as frequently, as fully as we would like to, simply because part of the time the computer is not operating in the way that it should be.

We don't want to in effect take time away from other essential processing, including returns, but more importantly, the updating of master files and so on and that kind of thing.

Chairman PICKLE. Well, Commissioner, if you don't find a better answer to these inventory cases, the cases are going to eat you up. They have already reached an enormous level and they are growing.

I have asked you, "Do you need extra personnel?" And you say, "No, it is a matter of management as much as anything."

Now, I have to ask this question as a follow through to that. You have already indicated that you are going to have to constantly upgrade your equipment. You said that a few moments ago.

Mr. EGGER. Yes.

Chairman PICKLE. We have made the changeover and we will have to make additional improvements on our equipment to make it modern and effective.

Mr. EGGER. That is right.

Chairman PICKLE. And as the people become familiar with it, and so on, we have delays. But at the same time, in the budget this year, the administration recommended $15 million less funds for operation of this equipment.

Can you adjust to that? Will it have an effect on what you want to do if that comes about?

Mr. EGGER. The budget does decrease the number of personnel by some 1,250 people, or positions, and about $30 million less than the fiscal year 1985 budget.

However, most of that is not in the areas that we have under discussion here today, but in rather administration and in——

Chairman PICKLE. Excuse me.

Mr. EGGER. I would like to comment that the case backlog that you are speaking of, we have in fact since December 31 dropped that by 27 percent, so that we are making significant inroads there now.

Chairman PICKLE. I am glad to hear you are dropping them. Perhaps our figures are not correct, but we have got them from your department.

I wish you would give us an updated report as of the 1st of February according to your figures, because that would help us analyze it.

[The information follows:]

UPDATED REPORT OF CASE BACKLOGS FOR ADJUSTMENTS

The inventory of adjustments correspondence nationwide was 945,000 as of February 8, 1985. As of March 22, 1985, that inventory had been reduced to 774,000, representing a 27-percent reduction from the inventory of December 31, 1984 (1,054,000). Philadelphia has 13 percent of the total cases, ranking second highest in the nation. Memphis has the highest inventory, 14.7 percent of the total cases. The inventory nationwide was 391,000 as of December 31, 1983.

Chairman PICKLE. If you are training people and so on, can you make corrections by reducing the inventory cases without sacrificing quality in that situation?

Mr. EGGER. I believe so. I think that our main—the main holdup is, as I said before, is being able to date current information from the individual accounts.

Chairman PICKLE. Let me yield to Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Commissioner, if one were to look over this chronology and listen to the presentation this afternoon in a dispassionate, unbiased manner, they would have to come to the conclusion that there is either massive incompetence or an incomprehensible streak of bad luck. I say this because opportunities to correct this problem time after time presented themselves and the personnel just ignored it or didn't do the right thing.

I have to take from all of this that you have all kinds of personnel problems.

Now, can you tell me about personnel? Do you have problems with turnover?

Mr. EGGER. Our turnover is about 10 percent a year over all. It is not unusual.

Mr. SCHULZE. About 10 percent a year in all 10 regions? Does it vary from region to region?

Mr. EGGER. I am sure it is different in different parts of the country. We have recruiting problems in certain areas of the country.

Mr. SCHULZE. Since we are talking about Philadelphia, do you have the figures for Philadelphia?

Mr. EGGER. Excuse me just a moment.

The answer to that is that we are not having any unusual problems in Philadelphia.

Our discussion had to do with the temporary employees that we used in the filing season. But the people you are talking about, obviously, are our permanent employees and we are not having any unusual problems there.

Mr. SCHULZE. In the chronology there was no mention of temporary employees, and so I had to assume that we were talking about permanent employees.

Mr. EGGER. That is correct.

Mr. SCHULZE. Throughout this?

Mr. EGGER. That is right.

Mr. SCHULZE. If you will get for the committee the figures on turnover, I would appreciate that.

Mr. EGGER. We will give them to you and specifically in the service centers.

[The information follows:]

TURNOVER IN IRS PERSONNEL

The overall IRS turnover rate for fiscal year 1984 was 11.3 percent. For both fiscal year 1983 and fiscal year 1984, the turnover rate in the service centers as a whole was 9.7 percent. The turnover rate in Philadelphia Service Center was 10.2 percent in fiscal year 1983 and 8.9 percent in fiscal year 1984.

Mr. SCHULZE. Mr. Commissioner, I have had, since we started talking about these hearings, an awful lot of people who have come to me with rumors and innuendoes and so on of personnel problems, of drug problems in the Philadelphia Service Center, of incompetency, of material which was shredded which should not have been shredded, of piles of papers and checks and so forth around and so on.

And I preface this by saying this was rumored. Nobody came in and said, "Here is a photograph" or "here is a specific case of what happened."

I say that as a preface to asking you, what kind of internal auditing or internal checks do you have to make sure that these employees are doing their jobs and that they are fairly well trained and relatively competent?

Mr. EGGER. Let me address some of these various things more specifically.

But in general, we have a very, very intensive integrity system which is conducted by internal security personnel, and we take our personnel at all levels through integrity training and integrity sensitivity training over and over again each year.

Mr. SCHULZE. What does that involve?

Mr. EGGER. I am sorry, I didn't hear you.

Mr. SCHULZE. What does that involve?

Mr. EGGER. It has to do with anything from dealing with taxpayer information to the need to do the jobs well and effectively. We have——

Mr. SCHULZE. That is discernible from competency training in one's field?

Mr. EGGER. Right. We have Internal Audit Programs, which is again a part of our overall internal security and internal audit. We have Internal Audit Programs which each year I receive from the assistant commissioner a schedule of the kinds of things that they are going to be looking at that year.

We sit down and discuss other possibilities, including having our internal audit people go into the service centers or into the districts and reviewing in depth and very specifically the quality and the effectiveness of the work being done.

Mr. SCHULZE. What is being done and how often is it? Is it random? Is it specific?

Mr. EGGER. No, we have people in place in all our regions, and they have an ongoing program that goes on.

Mr. SCHULZE. For instance, how many personnel in the Philadelphia area or region are involved with internal audit or security, or whatever you term it?

Mr. EGGER. Forty-three internal auditors in the Philadelphia region.

Mr. SCHULZE. And they are constantly performing internal audits?

Mr. EGGER. That is correct.

Mr. SCHULZE. Do they take specific functions and audit them or do they take departments? Could you tell me a little more about that?

Mr. EGGER. Yes; it may be either of those. They will identify either a procedure and examine that, or they will take a look at overall departmental or functional performance.

Mr. SCHULZE. Are they responsive at all in this function to external stimuli, like letters, if there were 300 letters that came in?

Mr. EGGER. That could generate a specific audit, yes.

Mr. SCHULZE. From that, I gather there is a method whereby they would be responsive to that.

Suppose the local accountants association says, "We have had an awful time with this particular situation." Who would they go to and how would that then turn into some kind of audit or a check?

Mr. EGGER. Typically they would go to the management. If it is a district, they go to the district director. If it is in the service center, the service center director.

But clearly they have access to the regional commissioner's office, where if the regional commissioner, after learning of the particular difficulties, might very well ask the internal audit people to go in and take a look and determine whether or not the representations are accurate and what is happening and report back.

Mr. SCHULZE. Now, Mr. Commissioner, who would know if there were massive incompetency, if there were a drug problem, if there were some of these other things which have been stated or rumored? Would you know?

Mr. EGGER. Yes, sir.

Mr. SCHULZE. Are you somewhat insulated from that?

Mr. EGGER. No; I would know about something of that sort. That kind of thing is reported to me regularly.

Whenever it occurs—in our manual, the individual members of the staff are instructed that if they see that kind of illegal activity going on, that they are to report it to internal security and they immediately begin an investigation.

If someone were to say that, that there is a drug problem, but be unwilling to discuss it with internal security, we would have a problem.

I can assure you, though, that if there were any drug problem in the Philadelphia service center that was at all unusual, a number of people would know about it and I believe it would immediately get to internal security people.

Mr. SCHULZE. To the best of your knowledge, there is not widespread incompetency, there is not a drug problem, there are not stacks of mail spread around in cardboard boxes or things being shredded that shouldn't be, in Philadelphia?

Mr. EGGER. No, Mr. Schulze. To begin with, that is illegal activity and if there were such a thing, I feel certain I would know about it. And if I did know about it, rest assured that something would be done to remedy the situation.

Mr. SCHULZE. I am trying to be as brief as possible.

In your corrective actions, Mr. Commissioner, nothing jumps out at me in the upper management level. I think you have got to do something in the upper management level.

I would think that with a problem as large as this—whereby I understand banks were calling and people were mailing in checks, canceled checks, and because of the mail backlog, those canceled checks may not have been opened—that people, your customers, should have access to upper management level to straighten out a situation like this.

I don't see anything on here in your recommendations which would create a pipeline to upper management in order to stop this kind of thing from happening in the future.

Mr. EGGER. Yes; I should point out to you that in the recommendations and the changes that have already been put in place, there is a mechanism to see to it that the service center director and/or the National Computer Center director are immediately informed if the proper action has not been taken.

I also mentioned in my testimony that we are going to continue and be looking at service center operations quite generally.

Mr. SCHULZE. I also would suggest, Mr. Commissioner, that your office perhaps specifically start an outreach program where you might call the 15 or 20 largest users in a city—say, the big businesses and maybe the local accountants association—a couple times a year and say, right from Washington, "How is that operation going? Do you have complaints which are not resolved? Is there some way we can help you?"

I think you could probably solve a lot of problems with that kind of an outreach program instead of waiting for this type of information to come in.

Of course, we get the worst problems by the time they come to us. But I have stacks of correspondence here where people have made five and six visits to local offices and to the regional offices, and still they continue to receive notices.

There has to be a way to stop the computer from spitting out notices when an error has been found.

Mr. EGGER. In each district and in each region, we have a liaison meeting every year or more often, or more frequently. We have a liaison group, and these are a group of practitioners, accountants, lawyers, and business people that do that very thing: They come in and talk to the regional commissioner or to the district director and so on and bring to their attention the kind of problems that you are speaking of.

It may well be that we need to elaborate on that and expand a bit on that. Certainly it is worth our attention looking at it.

Mr. SCHULZE. Thank you.

Chairman PICKLE. I understand there is a—I asked you a few minutes ago how you are going to modernize and update your equipment when you are being reduced in budget by some $15 million from last year's level, and you indicated to me, yes, there will be changes, but they are coming in areas other than just modernization. It is in administration and other approaches.

Mr. EGGER. Yes.

Chairman PICKLE. I am shown here from the Department of the Treasury that it—with respect to Federal funds in the budget this year, you say, "The amount of funds to remain available to be expended for systems modernization is being decreased from $50 million to $35 million to reflect program levels proposed."

That is not coming out of somewhere else; it is coming out of systems modernization, not just elsewhere.

So it seems to me like if you are going to make improvements and modernize, you are $15 million behind to begin with.

Is that correct or not?

Mr. EGGER. Yes, that is true, but——

What it amounts to is deferral of some less important projects in the interest of minimizing the amount of the budget costs to the taxpayers.

Chairman PICKLE. Well, I am in no position to pass judgment whether you can use the $15 million or you should have it or have more than that. You have to be the one that judges that.

I know we are under budget restraints, but when a problem like this arises and you say the problem is with respect to your equipment and modernization of the computer system you have, you can't cure it by reducing your basic equipment budget by $15 million unless you can sure make up the balance somewhere else. And that is going to be interesting.

So if you come up short later, you just remember this conversation.

Now, I am going to at this point ask questions of Mr. Duval. I am going to walk through some of this briefly. I don't want to belabor it but I want to ask some questions. You don't have to go into a long explanation, but I want to get, for the record, some chronology of things that happened.

We know about the tape. We know that somebody in Martinsburg called Philadelphia and explained they had a bad tape. But nobody seems to know who called or there is no record of it.

Again, there was no record, no log, none of that information kept that you know of. So just employee A, B, or C could have had a phone call and said, "Hey, you need to give us a new tape," and somebody says, "Yes, fine," and that is the end of it.

Is that basically correct?

Mr. EGGER. The nonexistence of a record of those calls is clear.

Chairman PICKLE. That is one of the things you are going to correct, of course.

Mr. EGGER. Yes.

Chairman PICKLE. Now, when you did make the calls to NCC, the NCC does put out a weekly report with a list of nonposted tapes. They send it to PSC and other areas.

I am about to decide that the weekly input report does no good. Listen to this chronology.

The Philadelphia station received its weekly accounting report from Martinsburg. This is supposed to alert the Service that a tape did not post. After 2 weeks of all kinds of alerts and warning bells, nobody did anything about it.

So the first weekly accounting report says, "There is a shortfall of $300 million," and yet nothing is done about it. Why?

Mr. EGGER. Well, I——

Chairman PICKLE. Why? Can you give me an answer so I can go home and tell my family that there is a reason for that?

Mr. EGGER. I wish I could give you an answer, Mr. Chairman, but I can only tell you that someone failed to recognize the significance of that and failed to do the job.

Chairman PICKLE. Now, Martinsburg, then, next did send the bad tape back to Philadelphia as requested. They said they were going to. That tape is not to be used, of course. It is supposed to be put in the library in accordance with your procedures.

Mr. EGGER. Right.

Chairman PICKLE. Now, the director of the Philadelphia office received from the NCC the standard weekly input report, which was not posted or processed. Normal procedure would have brought that to the attention of the computer service branch chief, but it didn't. It went to the office of the director.

So the process was not followed. Why? Why was it not done?

Mr. EGGER. That doesn't evidence that the procedure was not followed. I think the report simply states that that report was sent to the office of the director. It doesn't necessarily mean that it did not go where it should have gone in the service centers.

Chairman **Pickle**. We are told it went to the director and it didn't go to the computer branch service.

Later on, it identifies the computer branch service, was the first time he heard about it. He didn't get this for another 30 days.

Mr. **Egger**. But the report——

Chairman **Pickle**. Eventually he did, but 30 days later.

Now, Mr. Commissioner, Martinsburg sent a second weekly accounting report saying, "We have a $300 million discrepancy." This was on October 23. Still no action. None at all.

Now, why? You made phone calls to the places. Why wasn't something done about it then?

Mr. **Egger**. I have to give you the same answer.

Chairman **Pickle**. You can't do it?

Mr. **Egger**. We just——

Chairman **Pickle**. We were told, "OK, we know about it. We will take care of it." You got that from the Philadelphia office and NCC three or four times.

Management said they would take care of it and they took care of nothing.

Mr. **Egger**. That is correct.

Chairman **Pickle**. I suppose they had coffee and talked to each other. I am being flippant. But they did nothing after that.

Following that, you have four additional weekly accounting reports and they were all ignored. Why?

Commissioner, you may want to give us an answer for the record. I don't know that I hold you for——

Mr. **Egger**. Well, these reports, Mr. Chairman, I am told, are negative reports and do not show the specific unprocessed tapes.

I would like to furnish some more information for the record.

[The information follows:]

PHILADELPHIA SERVICE CENTER MANAGEMENT RESPONSE

Although procedures had been established to assure prompt replacement of a problem tape, these procedures were not followed. There was also a general lack of understanding and knowledge as to the impact this would have on the taxpayers' accounts. As a result, branch and division level management failed to elevate the problem. As soon as senior management became aware that this was a problem, they took immediate action to stop service center processing on the accounts and to correct the problem.

Chairman **Pickle**. November 20 to 27 then, the Philadelphia center did realize the problem. They said that the—from the monthly reports, that there was an error. They saw the nonposting and realized a serious problem did exist.

That is when the three accounting personnel walked over to the section chief and said, "You have got to do something about this." The section chief agreed, of course.

So he gives another tape to get it straightened out. And when he does, he gives them a bad tape.

With all this going on for 2 months, and this crisis looming out there, he said, "I will send you a tape," and yet he sends you a bad tape. What he did was go to the library and get the old tape, I understand.

That is in violation of the procedure, is it not?

Mr. EGGER. I don't believe he sent the old tape. I believe he went there to identify the tape.

Chairman PICKLE. Is that according to procedure, then?

Mr. EGGER. Sorry?

Chairman PICKLE. Is that according to procedure?

Mr. EGGER. No. He got the old tape for the purpose of seeing to the duplication of it for them.

Chairman PICKLE. I understand that the use of library tape appears to be a violation of the standard operating procedure; is that correct or incorrect?

Mr. EGGER. The duplication of the tape in the manner in which this particular one was duplicated is a departure from our normal procedures.

But the reason for that was that the source tapes from which one would normally make a replacement tape were themselves eliminated, erased, whatever, after the 30-day retention period.

Chairman PICKLE. On November 28, an accounting branch chief signed the October reconciliation report, which was the first accountability report that identified the tape. That is the first time.

At least as of this date, management is directly involved in it, then.

Mr. EGGER. Right.

Chairman PICKLE. We have another 1½ months before anything gets resolved. So you say it wasn't an error in management; management wasn't just sitting around talking to each other.

Yet, it was 6 to 8 weeks after this date before they got anything done. Why was that the case?

Management knew about it at that point. Your top management knew about that. Is that incorrect or correct as recall it?

Mr. EGGER. Not the top management but the branch level, yes.

Chairman PICKLE. Well, I don't want to—you have got a bushelful of management up there, any one of whom on a dozen levels ought to catch these things.

It may sound harsh, but the cold facts of the matter are all those big fellows didn't do it. And you had all kinds of warnings and chances to do it, but they didn't do it.

Mr. EGGER. I agree with you. That is not in question.

Chairman PICKLE. OK.

Mr. EGGER. I am not attempting to defend that. I am simply pointing out that once the need to replace that tape was identified, then there were a series of additional things that were happening while they sought to reproduce the tape from the first tape.

Chairman PICKLE. I guess it was broken. They couldn't fix it and it got worse and worse.

And along this time, it gets funny almost. The replacement tape was made in Philadelphia, sent to Martinsburg, and the numbers didn't balance. It was flawed. They just recreated a new tape and then you sent it back up there, and you think you got it solved, but it wasn't solved at all.

So I guess you switch back and forth where you had to get the new tape on December 5 and here on December 10, Martinsburg calls Philadelphia and said, "We need a new tape," just bluntly. They said that to them.

Yet, nothing is done at the service center. You got no record of it, no notification, and the whole problem is renewed.

How can you explain that?

By this time, Washington knew it, and everybody knew it. I wouldn't be surprised if my own center in Austin may not have known about it by then.

As of December 17—even what happened on Christmas Eve, the computer service branch chief, who has responsibility for ensuring that replacement tapes are timely processed, states that on this date he was notified of the problem for the first time.

Do you have anything to do with him, Mr. O'Hanlon?

Mr. O'HANLON. No, Mr. Chairman.

Chairman PICKLE. Don't say anything more then. That is one thing you can't get a finger pointed at you for.

Mr. EGGER. Keep in mind, Mr. Chairman, please, that during this particular time period, the resident program analyst was in fact attempting to correct this tape. They attempted to copy it from the old tape, which is an abnormality. That is not the usual procedure.

When they did that, they put a new header on, in effect, the old tape, and in so doing, they destroyed some data that was on the original tape. That was where the problem was in this particular time frame.

Chairman PICKLE. Well, we all know that the header was faulty and that that caused a whole new problem. Once you get one of these problems moving, you have to hope you can get it back at the earliest possible time.

I don't think we will ever get rid of the fact that some individuals, some employees, have to post that information and send it out and the computer takes it. And, in this case, the computer worked as you say. I can't say that I can say it is not unusual that that employee would make a mistake. I think, though, it is irresponsible that we would allow 4 months to go along before we ever located $300 million that is set out here in a basket in front of us without your people knowing something about it. I don't understand it. I don't think the American people understand it. And I don't think you understand it, and you regret it.

I am glad you are making these changes because, obviously, they are needed and they will be needed for other centers.

I want to ask again, are the new procedures being recommended or demanded in other centers, too?

Mr. EGGER. Yes.

Chairman PICKLE. Has the Austin, TX, center got the information that these changes, procedures are to be followed?

Mr. EGGER. They have. We are in the process of putting together a procedures manual, a new manual, which will be in place in all the 10 service centers.

Chairman PICKLE. Do you have any recommendations of what else we ought to do about this particular case, this whole situation? Have you got any recommendations you want to make to us as a committee that is looking into this?

Mr. EGGER. I would like you to consider giving us time to put these controls in place, and then let us report back to you as to our experience once the controls are in place.

[The following was subsequently received:]

REPORT ON EXPERIENCE WITH PROCEDURAL CONTROLS "ONCE THE CONTROLS ARE IN PLACE"

Over the next year, the Service will monitor tape replacement procedures to assure that they are effective in achieving timely replacement. We will report back to this Subcommittee by June 30, 1986.

Chairman PICKLE. All right. We will do that, because this committee has been charged by the chairman to look into and review the whole administration of the IRS. We will be doing a continuation of this and a series of other things, other programs we want to look into. We will be in touch with you.

I don't want to sound like I am being unfair about this particular case, and I don't take pleasure in spreading it all out on the table because if it is frustrating and embarrassing to you, it is frustrating and embarrassing to us, particularly Mr. Schulze and Mr. Heinz and others up in the Philadelphia area.

What we have to do is get this corrected and see to it that it doesn't happen again. I have a feeling that a great deal of difficulty may be laid down in the department to someone who has the responsibility in the management area that didn't catch it. I don't know who. I will not mention names, because I don't think that serves any good. Some of them may be in this room. But what we have to do is do what the Internal Revenue is supposed to do: See that our tax laws are administered fairly and equitably to all taxpayers. And when you penalize or in effect put the taxpayer to the embarrassment that he has levies made against him, that loses confidence instead of building confidence.

I think you have insisted last year that we have this SCRS system put in, and I am glad you have, and I think you are making great headway down there. But when an incident like this happens, such as in Philadelphia, we simply can't accept that, nor can you accept that. It is not enough to say, well, it is better here than in Philadelphia. But it happened in Philadelphia. And if there are problems within that center, personnel problems, I would expect you ought to take care of that.

Mr. Schulze, I have a question I want to ask for Mr. Duval, I believe.

Mr. SCHULZE. I do have a question, Mr. Commissioner. In reviewing some of the testimony that will be coming in later, a letter was written to the Philadelphia Bar Association section on taxation from Commissioner Waters. In that letter he stated that penalties or interest which may have been wrongfully collected will not be taken care of automatically by the Internal Revenue Service; that either an individual or an accountant would have to initiate some process.

That is not right. If penalties or assessments have been wrongfully collected and the Service is aware of it, you should do something about it.

Mr. EGGER. If we know of any erroneous imposition of a penalty, Mr. Schulze, we certainly will take care of it. And we do.

Mr. SCHULZE. All right.

Now, I have one other question, with your indulgence, Mr. Chairman.

In going through the reams of material on this incident, several letters from the IRS to people with problem accounts, included a sort of a standard heading which said: "You have not checked off for the contribution to the Presidential election." It would seem to me to be an awful waste of paperwork.

Is that some kind of standard form that is included when the letter goes out? Why would that question be asked of a correspondent?

Mr. EGGER. Let me be sure I understand. Excuse me a moment.

Mr. SCHULZE. I didn't know whether that question was part of a standard form.

When you send a letter out on some other matter and the taxpayer has not checked, do you automatically ask if they checked? If you do, I'm saying that is a waste of time and effort.

Mr. EGGER. I am not aware that we send letters out on that basis, Mr. Schulze.

Mr. SCHULZE. In correspondence that I reviewed, that question was asked. My advice to you is, don't ask that question. If they are going to check it, they are going to check it. They know what they are doing.

Mr. EGGER. I agree with you. I would like to get information on it so we can follow up on it, because I am not aware of it.

[The following was subsequently received:]

PROCESSING OF PRESIDENTIAL CAMPAIGN FUND [PCF]

Currently, when correspondence is initiated with the taxpayer for missing information and the tax return has a tax liability of one dollar or more and the PCF boxes are blank, we also advise the taxpayer that a contribution can be made if he/she wishes to do so.

Beginning with processing year 1986, we will no longer advise the taxpayer of his/her option to make a PCF contribution when we correspond for missing information.

Mr. SCHULZE. Thank you.

Chairman PICKLE. A Mr. Duval, is he here?

Mr. EGGER. Yes, Mr. Chairman. He is here.

Chairman PICKLE. Might I ask that Mr. Duval take the stand here?

I understand you are the assistant regional inspector of the Internal Audit Division, Mid-Atlantic region of the IRS.

Mr. DUVAL. Yes, sir.

Chairman PICKLE. You are conducting this audit. When will your internal audit report on the Philadelphia posting problem be final and available to this subcommittee?

Mr. DUVAL. I would say between 4 to 6 weeks, sir.

Chairman PICKLE. Four to six weeks. We asked for this about February 28. That is when we asked for it. We got a preliminary report on it, but it will be 4 to 6 weeks.

Why would it take this long? Is it that involved?

Mr. DUVAL. The particular work we are going to do involves looking at the same processes that occur at a couple other service centers, to see if there are similar problems nationwide, as well as following up on the actions that the Commissioner has asked the service directors to implement.

Chairman PICKLE. Do you have the authority or the jurisdiction to recommend any kind of disciplinary action to these employees?

Mr. DUVAL. No, sir; no disciplinary authority at all.

Chairman PICKLE. Are you expected to make recommendations in that field, or is that up to the Commissioner?

Mr. DUVAL. That would be up to the Commissioner, as far as I am concerned, yes, sir.

Chairman PICKLE. You again would look into this: Were you surprised at the magnitude of the problem and the length of time it will probably take to correct it?

Mr. DUVAL. I was surprised at the frequency of the errors, yes, sir. I didn't quite catch the magnitude part.

Chairman PICKLE. Were you surprised at the magnitude of this particular incident, the problem involved in it?

Mr. DUVAL. Yes, sir. It extended so long. I was, yes, surprised—from the knowledge I have of the operations, I am surprised it went that long unrecognized.

Chairman PICKLE. Can you express a reason why it took 4 months, now 5 months, to ferret out this problem?

Mr. DUVAL. I think the reasons the Commissioner identified—the lack of a system of controls to promptly identify the need for action, and the apparent lack of management involvement to be sure that things were being resolved.

Chairman PICKLE. I would ask you the same question as I did others: Where does the responsibility rest in this snafu? With the employees?

Mr. DUVAL. I don't think it rests on any particular person. I think it is managers and employees, both levels.

Chairman PICKLE. I know it is not one person, but what was the other part of your answer?

Mr. DUVAL. The managers and employees; managers from not recognizing the problem, and employees not surfacing the problem.

Chairman PICKLE. Will you make recommendations in your report about what should be done to correct these errors?

Mr. DUVAL. Yes, sir; the substance of the recommendations that the Commissioner has been talking about came from internal audit. We made them to the Philadelphia Service Center director when we completed our initial review there to quickly correct the problem.

Chairman PICKLE. You are making this audit of the PSC office. Will you be looking at other service centers' operations likewise?

Mr. DUVAL. Yes, sir; that is why it will take additional time to complete the review, because we have not started the work in other centers yet.

Chairman PICKLE. So part of the delay is, as you investigate PSC, you also will be ascertaining if the same thing may have or could have happened in other centers?

Mr. DUVAL. Yes, sir; it was our desire and the Commissioner's, as well, to see if this was a nationwide-type problem.

Chairman PICKLE. Do you intend any kind of a followup review on the process and procedures used by the service center in assisting the taxpayers who received erroneous notices?

Mr. **Duval**. That will be part of our review. The corrective action that the service center took on these instant taxpayers is what we will be looking at.

Chairman **Pickle**. Commissioner Egger, do you want to make any additional statement, or any of your coterie of personnel that you have here?

Mr. **Egger**. Well, Mr. Chairman——

Chairman **Pickle**. If we have been too strong, or if we have left out some point that should be made, I would be glad to hear from you in addition.

Mr. **Egger**. I would like to make a few comments, if I might, Mr. Chairman.

One, although it may sound strange to you, I really congratulate you for holding these hearings. I cannot tell you that the fact that you have scheduled these hearings hasn't given us further impetus to see to the correction of the errors whenever and wherever they exist.

I want to quickly bottom all that, however, by saying that I have been in this job for 4 years now, and across the board I believe that the Internal Revenue Service personnel are as dedicated and committed to doing a topflight job as any place I have ever been or seen in my lifetime.

It is true that in this case there were errors which simply are inexcusable. We are looking at that from a variety of standpoints: one, to see whether and to what extent on a systemic basis we can make corrections and place further controls in place. We are also looking at it from the standpoint of what we as managers need to do to see to it that people are sensitized to the impact of what they do in their daily routines on the taxpaying public. We intend to do that as well.

Then, finally, the instances of specific personnel failures will be dealt with in our normal course; that is to say, whenever and wherever we can fix responsibility—not so much for the person who should have known or whatever, but where people, and particularly at the management level, where they overlooked something that they shouldn't have overlooked—we will take appropriate steps either to discipline those individuals or to see to it that they are perhaps no longer in those positions so that that process can't be repeated.

I can only tell you that although this is a very significant happening—and I don't want to in any sense suggest that it is other than one which demands our immediate and undivided attention—but I do have to say that I would like the record to show that this organization handles a tremendous volume of complicated detail, and I think handles it by and large quite well.

Chairman **Pickle**. I thank you, Commissioner. You obviously have a deep concern about the employees and their efficiency. And of all the Commissioners I have worked with, I certainly think you are one of the best.

This hearing is not intended to reflect on you personally or the Service itself, but I think the fact is we must point out that we have a weak link in our chain in this particular instance in Philadelphia. Perhaps Philadelphia is the "sick sister" of the IRS system right now. But whatever the problem is, it has got to be corrected.

And I am glad you are taking corrective actions, and I hope it all helps.

At a time we are talking about changing the tax system and encouraging people to have a strong belief in voluntary compliance, when we get a computer snafu it just sets us all back and makes us all unhappy, and we have to dream about that. We have to correct this.

I would not be surprised if some heads ought to roll or some action be taken in some places in order to get this straightened out.

I would wish that more Members could hold hearings with you and your offices throughout the land so that taxpayers generally could come in and express their criticisms, or their objections, or their suggestions. You did that for us last fall in Austin, TX. I thought it was very productive and helpful; and some 150 or 200 taxpayers came in. That was very helpful to us. I think it can be done throughout the land.

Mr. EGGER. I agree with you.

Chairman PICKLE. Thank you for coming. You have been very patient.

If there are no other questions, we thank you, Mr. Commissioner.

Mr. EGGER. Thank you, Mr. Chairman.

Chairman PICKLE. I am going to ask the panel, Pennsylvania Society of Public Accountants and National Society of Public Accountants, and Philadelphia Bar Association, to come up to the table. If you would take your position at the table, I will call a 5-minute recess while you get organized.

[Recess.]

Chairman PICKLE. I will ask that the subcommittee resume its sitting, and we will now be privileged to hear from a panel of—let me see if I have you identified right. I have: Mr. Ronald Noll, vice president, Philadelphia Chapter of the Pennsylvania Society of Public Accountants; then I have Mr. Mervin Wilf, chair, and Mr. Joseph Lundy, secretary-treasurer, of the Philadelphia Bar.

I appreciate you gentlemen coming, and I regret this has been a longer hearing and we have to get to you just now. But if you attended the earlier hearing, you know we have a lot of questions.

I will recognize you first, Mr. Noll. Your statement can be put in the record, but you may give the whole statement if you wish to. I don't want to cut you back on time. You proceed as you wish.

STATEMENT OF RONALD L. NOLL, VICE PRESIDENT, PHILADELPHIA CHAPTER, PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS, AND ALSO ON BEHALF OF THE NATIONAL SOCIETY OF PUBLIC ACCOUNTANTS

Mr. NOLL. Thank you, Mr. Chairman.

I am Ronald L. Noll. I am a public accountant in Malvern, PA. I have been in practice for 12 years and am enrolled to practice before the Internal Revenue Service.

I appreciate the opportunity to be here today on behalf of the 1,200 members of the Pennsylvania Society of Public Accountants and the 17,000 members of the National Society of Public Accountants. NSPA has an affiliated State organization, such as ours, in each of the 50 States, the District of Columbia, and the Commonwealth of Puerto Rico. Our members provide auditing, accounting, tax, and management advisory services to more than 4 million small businesses and individuals throughout the Nation.

I would ask that my complete statement be placed in the record so I may summarize my statement here.

Chairman PICKLE. Without objection, Mr. Noll, it will be included.

Mr. NOLL. Thank you.

The two societies I represent here today applaud the concern this subcommittee has shown regarding the computer problem that resulted in the disappearance of tax withholding payments for 26,804 companies in the region serviced by the Philadelphia Internal Revenue Service Center. I truly wish I could provide you with the hard information you are looking for. Sadly to say, I cannot. It is sad that I cannot provide this information because of the reason behind my lack of details.

I have called over 50 NSPA members in the region serviced by this Center. Some said they could not tell if their clients had problems because of this particular computer snafu, or because of some other typical computer snafu. Other members refused to give me information because they feared the IRS would retaliate against them and their clients. The extent of this fear of the IRS is unconscionable.

Chairman PICKLE. Let me interrupt.

I notice in some of the news releases I have been reading in preparation for this hearing that in many instances businesses who were contacted explained—when asked: Were you levied? or, did you get your notice?—many of them said, "I did. I am not talking because I don't want to give my name."

Is that a common feeling; that they just don't want to give their name or get out in front because they fear the IRS?

Mr. NOLL. I was quite surprised, because this was my first endeavor in this type of problem, and I was amazed at the number of—the volume of small tax practitioners who fear the IRS retaliation, and the businesses. And I have in my other statement a person that said they would prefer to pay their taxes again, which was $478, the amount in question, rather than raise the question.

Chairman PICKLE. All right. Go ahead.

Mr. NOLL. The extent of this fear of the IRS is unconscionable. No amount of assurances from me that their names and the names of their clients would not appear in my testimony allayed their fear. No amount of assurances that this committee would protect them caused them to offer more information.

A Senate staff person told me that those who are testifying at the Senate Finance Committee's hearings in Philadelphia next week will be offered hoods to wear so that the IRS won't know who they are.

A member of our society said that an IRS agent who is a friend of his told him the IRS will retaliate against those who testify. That the IRS has sunk so low in public opinion that a responsible accountant honestly believes he needs a hood to protect himself from IRS retaliation indicates that the Service's problems are deeper than that of a balky computer. That the IRS thinks so highly of itself that its employees can threaten retaliation in the belief that such action would be accepted by society should cause all of us to stop and wonder about what direction our country is headed in.

What I can offer you are examples of typical problems taxpayers have had with the Philadelphia Service Center. Many of them, I am told by my colleagues, are typical of all nine service centers. Philadelphia does, however, seem to have more problems than the others in terms of quantity, if not quality.

The basic problem always seems to be a problem with the computer; always a convenient explanation. This problem has worsened markedly since 1977. The computer problem is compounded by the Center's seeming inability to respond to correspondence. When an accountant does get a response, it usually only lengthens the time it takes to solve the problem. Of course, the accountant is never able to talk or correspond with the same IRS employee twice, so you have to start at the beginning with each new attempt to rectify the problem.

Allow me to cite just one of the examples that are in my written statement. A taxpayer client of our firm paid his 1981 taxes timely. In 1982, IRS wrote saying they had no record of receiving one $8,000 check. We promptly sent the Service a copy of the canceled check by certified mail. Instead of a reply, more dunning notices appeared.

Between 1982 and 1984, we sent a copy of the canceled check by certified mail seven times in reply to their dunning notices, only to discover that the IRS had liened the taxpayer's bank account.

We then hand-delivered a copy of the check in question to the West Chester, PA, office, and the lien was lifted.

Shortly thereafter, the bank account was again liened and the second time we hand delivered a copy of the check in question. But would you believe it, the bank account was liened for the third time and for the third time we hand delivered the check, but the IRS continued trying to collect what wasn't due them.

In approximately November 1984 this same taxpayer who had on 10 separate occasions proven his tax liability was paid in full, went home to his residence to find a notice from the IRS that they were seizing his house and going to sell it for the back taxes he never owed. We then wrote to Congressman Richard Schulze, who interceded for us. In approximately 1 month the Congressman received a letter of apology from the IRS. To date, however, to the best of my knowledge, the taxpayer has not heard a word.

I ask you, is this a procedural problem or is it a nightmare? This client has already paid our firm over $700 to resolve this problem. It has taken nearly 3 years of time and wasted effort. Copies of this file and others are attached to my statement.

Another problem is one of obtaining forms. For example, the Federal payroll tax liability bank deposit forms must be requested from the IRS as it is illegal to send IRS the money directly. A client, who was a new employer, recently tried to obtain the necessary forms at the West Chester, PA, office. He was told he would have to wait several weeks until it was mailed to him from the IRS Forms Department in Virginia. When he called our firm, we told him he would be penalized if the liability wasn't paid timely, and that we would get the necessary form.

At first, the IRS told us there was no such form. Then after we explained the fact that this was a new employer, they relented and said we could get the form but we would be required to appear in person and pick it up because their policy was not to mail forms. So we wasted one-half a day driving to the local IRS office and waiting in line more than 1½ hours to get a form to avoid our taxpayer being penalized.

For a number of years the IRS problem resolution officers really seemed to be able to help. They could stop a seizure that was invalid or fix within a matter of days or weeks the type of situations that I have been describing. Just what has happened to them, I don't know. They seem to have lost their power or their computer is broken down, or both.

The last time I tried to call I was put on hold by a machine for more than 25 minutes, at which point it was 4:30 p.m. and a recorded message then told me the office was closed and I should call again during regular hours. These problems occur on a regular daily basis in our area. The computer turns out all sorts of dunning notices requesting payments or further information which is necessary for the system to collect the proper taxes. However, submitting the requested information once, twice or even three times, does not stop the computer from generating more notices. It is as if no one reads the correspondence we submit. As a result, we usually receive several more notices before they acknowledge receipt of our information.

While developing this testimony I contacted several people I know who work for some of the "Big-eight" accounting firms to see what problems they have. Much to my surprise, they said they didn't have any. It seems that the IRS doesn't have a problem finding the correct forms for a company, say large like duPont. It seems they are able to respond to correspondence from Coopers & Lybrand on behalf of a major corporation, and it seems that the IBM's of the world can afford to send staff from their accounting department to the IRS offices and to have this staff stay all day if necessary to solve the problem.

My clients are small businesses—barber shops, dry cleaners, small exterminating companies and the like. They can't afford to pay me to spend all day at the IRS office trying to solve their problems and they shouldn't have to pay me to do that even if they could afford it. I should be able to solve their problems by using the regular IRS channels and procedures. IRS employees should be able to find the same forms for me, and in the same amount of time, as they can for Touche Ross.

Maybe I have been naive in assuming that the IRS was equally responsive to all taxpayers, but then again, some will point out that I am naive enough to appear here today without a hood. That the IRS evidently does not treat all business alike in working to solve their problems is to my mind at least, inexcusable.

In conclusion, I would like to thank the members of this committee for their concern in recognizing these problems. There are many problems but they can be solved if we work together and communicate. Our society would be happy to work with Congress and the IRS to permanently design procedures from the top down that would give the taxpayers a way to pay their taxes and then a way to stop the computer once the tax has been paid. I am prepared to answer any questions you may have.

[The prepared statement and attachments follow:]

STATEMENT OF RONALD L. NOLL, ON BEHALF OF THE NATIONAL SOCIETY OF PUBLIC ACCOUNTANTS AND THE PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS

My name is Ronald L. Noll. I am a public accountant in Malverne, Pennsylvania. I have been in practice for over 1[illegible] years and am enrolled to practice before the Internal Revenue Service.

I appreciate the opportunity to be here today on behalf of the 1,200 members of the Pennsylvania Society of Public Accountants and the 17,000 members of the National Society of Public Accountants. NSPA has an affiliated state organization, such as ours, in each of the 50 states, the District of Columbia, and the Commonwealth of Puerto Rico. Our members provide auditing, accounting, tax, and management advisory services to more than four million small businesses and individuals throughout the nation.

The recent and well publicized computer problem of the Philadelphia Service Center with payroll deposits not being properly credited, began in October 1984. Actually, this problem is only the tip of the iceberg. The fact that nothing was done about this problem for several weeks, seems to be the rule in Philadelphia rather than the exception. In many ways, this problem is typical for this Center.

Many procedures, from collections, to ordering forms, to taxpayer service are either nonexistent or break down on such a regular basis as to elicit disgust from those of us who daily spend time trying to reconcile these problems through an endless group of IRS employees who either lack concern, or who themselves suffer from the mountains of red tape and a seemingly impossible task.

The two societies I am representing today applaud the concern this Subcommittee has shown regarding the computer problem that resulted in the disappearance of tax withholding payments for 26,804 companies in the region serviced by the Philadelphia Center. I truly wish I could provide you with the hard information I know you are looking for. Sadly to say, I cannot.

It is sad that I cannot provide this information because of the reason behind my lack of details. The IRS and the banks will not release the information they have. After first denyiny the problem completely, the IRS finally admitted it but said they could not release information because it is confidential. The banks, understandably, also could not release information because of privacy rights.

I have called over 50 NSPA members in the region serviced by the Philadelphia Center. Some said they could not tell if their clients had problems because of this particular computer snafu or because of some other "typical" snafu. Other members refused to give me information because they feared the IRS would retaliate against them and their clients.

The extent of this fear of the IRS is unconscionable. No amount of assurances from me that their names and the names of their clients would not appear in my testimony allayed their fear. No amount of assurances that this Committee would protect them caused them to offer their information. One member told me, and he honestly believes it now, that those who are testifying at the Senate Finance Committee's hearings in Philadelphia next week will be given hoods to wear so the IRS won't know who they are. Maybe he would not give me information because I told him I would not be wearing a hood today. That the IRS has sunk so low in public opinion that a responsible accountant honestly believes he needs a hood to protect himself from IRS retaliation, indicates that the Service's problems are deeper than that of a balky computer.

What I can offer you are examples of typical problems taxpayers have with the Philadelphia Service Center. Many of them, I am told by colleagues, are typical of all nine service centers. Philadelphia does, however, seem to have more problems than the others in terms of quantity, if not quality.

The basic problem seems to be a problem with the computer. Always a convenient explanation, this problem has worsened markedly since 1977. The computer problem is compounded by the Center's seeming inability to respond to correspondence. When an accountant does get a response it usually only lengthens the time it takes to solve the problem. Of course, the accountant is never able to talk to or correspond with the same IRS employee twice, so you have to start at the beginning with each new attempt to rectify the problem.

Allow me to cite some examples.

A taxpayer client of our firm timely paid his 1981 taxes. In 1982, IRS wrote saying they had no record of receiving one $8,000 check. We promptly sent the Service a copy of the cancelled check by certified mail. Instead of a reply, more dunning notices appeared. Between 1982 and 1984, we sent a copy of the canceled check by certified mail seven times in reply to their dunning notices, only to discover the IRS had liened the taxpayer's bank account. We then hand delivered a copy of the check in question to the West Chester, Pennsylvania office and the lien was lifted. However, shortly thereafter, the bank account was again liened and a second time we hand delivered a copy of the check in question. But, would you believe it? The bank account was seized for the third time!! And for a third time we hand delivered the check!! But the IRS continued trying to collect what wasn't due them.

In approximately November 1984, this same taxpayer, who had on ten (10) separate occasions proven his tax liability was paid in full, went home to his residence to find a notice from IRS that they were seizing his house and going to sell it for the back taxes he never owed! We then wrote to Congressman Richard Schulze who interceded for us. In approximately one month, Congressman Schulze received a letter of apology from the IRS. To date, however, the taxpayer has heard not a word. I ask you is this a procedure problem or is it a nightmare? This client has already paid our firm over $700.00 to resolve this problem. It has taken nearly 3 years of time and wasted effort. Copies of this file are attached to my statement.

Another Example: On October 13, 1984, a taxpayer in Delaware County, Pennsylvania, had his corporate bank account liened for nonpayment of payroll taxes. We hand delivered a certified check to the IRS West Chester, Pennsylvania office and had the lien lifted. In November 1984 we received another dunning notice saying the liability was still unpaid. Again they threatened seizure of the bank account. When we called IRS West Chester, Pennsylvania office, they told us not to be concerned, that there was a computer problem and it would be several months before the account would be properly credited. However, since the taxpayer's bank account had been liened for an amount that included invalid penalties, we requested a refund of the penalties, we requested a refund of the penalties on Form 843, per the IRS's employee's advice. On February 22, 1985 instead of receiving only a penalty refund, the taxpayer received a refund of the full amount paid, plus interest! So the problem that began in December 1983 still goes unresolved. Copies of this file are also attached to my statement. You might note on the IRS hand written memo dated January 21, 1985, signed by Mrs. Adkins, that the IRS phone number listed is not even an IRS phone, but one belonging to a computer firm!!

Another procedure problem is one of obtaining forms. For example, the federal payroll tax liability bank deposit forms must be requested from the IRS as it is illegal to send IRS the money directly. A client who was a new employer, recently tried to obtain the necessary form at the West Chester, Pennsylvania office. He was told he would have to wait several weeks until it was mailed to him from the IRS forms department in Virginia. When he called our firm, we told him he would be penalized if the liability wasn't paid timely, and that we would get the necessary form. At first, the IRS told us there was no such form. Then. after we explained the fact that this was a new employer, they relented and said we could get a form but we would be required to appear in person and pick it up, because their policy was not to mail forms. So we wasted one half of a day driving to the IRS office and waiting in line more than one and a half hours to get a form to avoid being penalized.

And when the message gets through, it really gets through. There are fifteen forms in the payroll deposit booklet. In

November 1984, our firm was low in forms, so, using the proper re-order blank we ordered one book. Instead of receiving one book we received two packets - each one containing two books! Yes sir, we now have enough forms for more than four years.

For the past two years, we in the Philadelphia area have received our Federal Form 940's near the end of January. (In fact our firm received it January 27, 1985.) Naturally, if a tax liability is mailed late, penalties will be assessed. However, there is no way for a taxpayer who receives the form on January 27th to get the form forwarded to his accountant, who needs to prepare the return and mail it back to the taxpayer who must then sign it, attach a check, and have it postmarked within a four day period. I asked several accountants in New Jersey about this porblem, and they said the Holtsville, New York Service Center had the same forms to the taxpayers in early January. I suggest that all penalties be waived for any taxpayer filing within thirty days after the form was mailed, if it is not received timely in the future. You should also note that we couldn't use a prior year's form as the percentage of tax liability had been changed.

Then there is the time saving device whereby a taxpayer's representative receives a notice from the IRS thanking him for the recent correspondence and telling him that an answer will be forthcoming shortly. The problem is that the form gives no relevant information such as the taxpayer's name, address, social security number, or question submitted. It lists no name or phone number to call. It sure saves time. The problem is what do you do with it? Who's file should you put it in, or should you just disregard it?

I have numerous files with me that I will make available to any legislator or IRS personnel to further document the problems caused by IRS' failure to attend to correspondence.

For a number of years, the IRS Problem Resolution phone line really seemed to be able to help. These Problem Resolution Officers could stop a seizure that was invalid, or fix within a matter of days or weeks the type of situations I've been describing. Just what has happened to them I don't know, but they seem to have lost their power, or the tools necessary to get the job done. The phone numbers are constantly busy, or their computer is broken down, or both. The last time I tried to call them I was put on hold for more than twenty-five minutes by a machine, at which point it was 4:30 P.M. A recorded message then told me the office was closed and I should call again during regular office hours!

These problems occur on a regular, daily basis in our area. The computer churns out all sorts of dunning notices requesting payments, or further information which is necessary for the system to collect the proper tax. However, submitting the requested information once, twice, or even three times does not stop the computer from generating more notices. It is as if no one reads the correspondence we submit. As a result, we usually receive several more notices before they acknowledge receipt of our information.

While developing this testimony, I contacted several people I know who work for some of the big eight accounting firms to see what problems they have. Much to my surprise, they said they don't have any!

At first I was confused. If the small businesses that my colleagues and I serve have problems, surely the large companies that the big eight serve must have even larger problems. It turns out this isn't so.

It seems the IRS doesn't have a problem finding the correct forms for a company like DuPont. It seems they are able to respond to correspondence from Coopers and Lybrand on behalf of a major corporation. And it seems that the IBM's of the world can afford to send staff from their accounting firm to the IRS offices and to have this staff stay there all day, if necessary, to solve the problems.

My clients are small businesses: barber shops, dry cleaners, small exterminating companies and the like. They can't afford to pay me to spend all day at the IRS office trying to solve their problems. And they shouldn't have to pay me to do that even if they could afford it. I should be able to solve their problems by using the regular IRS channels and procedures. IRS employees should be able to find the same forms for me, and in the same amount of time, as they can for Touche Ross.

Members of the Committee have heard the statistics: 98 percent of the non-farm businesses in the U.S. are small businesses, small businesses employ 48 percent of the private work force, 60 percent of the work force are employed by companies that have 20 or fewer employees, small businesses contribute forty-two percent of all sales in this country and are responsible for 38 percent of the gross national product. And yet the IRS can't solve their problems but can solve the problems of the other two percent of the country's businesses. Maybe I've been naive in assuming the IRS was equally responsive to all taxpayers. But then again, some will point out that I'm naive enough to appear here today without a hood. That the IRS evidently does not treat all businesses alike in working to solve their problems is, to my mind at least, inexcusable.

In conclusion, as a member of the Pennsylvania and the National Society of Public Accountants, and as a taxpayer, I would like to thank the members of this Committee for their concern regarding these problems. I would also like to thank those dedicated people from the IRS who do try to resolve these problems and improve the system. There are many problems, but they can be solved if we work together and communicate. Our Society would be happy to work with Congress and the IRS to permanently design procedures from the top down that would give taxpayers a way to pay their taxes, and then stop the computer when the tax has been paid.

I am prepared at this time to answer any questions you may have.

August 25,1983

Internal Revenue Service
P. O. Box 57
Bensalem, Pa. 19020

Ref. Loren J. & Ann M. West
276-22-2617 1982 Tax Return
Doc. Loc. Number 2822-115-60028-3

Dear Sirs:

I Have just received your notice dated August 22, 1983 which indicated an Underpayment of Tax in the amount of $8,000.00. Enclosed you will find a copy of my check in payment of estimated taxes dated September 14, 1982, my check number 3394. Also enclosed is a copy of the reverse side of the check showing your endorsement.

I assume that the above information will clarify your error. Any penalty or interest due should thus be recalculated and another statement forthcoming without additional penalty due to your error.

Sincerely,

Loren J. West

.ternal Revenue Service

YOUR COPY

9/27/83

10:45 AM

002331

Date of This Letter
09-23-83

If you inquire about your account, please refer to these numbers or attach this letter

Taxpayer Identifying Number
► 276-22-2617 JO
Document Locator Number
► 28222-115-60028-3
30-8212

502 828 2301

LOREN J & ANN M WEST
1191 BEAUMONT RD
BERWYN, PA 19312

We have previously written to you about the Federal tax shown below. It is overdue and you should pay the total amount due immediately to avoid additional interest and penalties.

If you cannot pay this amount in full, please write or call us immediately and let us know your intentions concerning payment of the amount due. We have enclosed a copy of Publication 586A, The Collection Process (Income Tax Accounts), which provides information about our collection procedures and your rights in relation to them. Your attention is specifically directed to our Enforced Collection Policy on page 2.

Make your check or money order payable to the Internal Revenue Service and write the above taxpayer identifying number on it. Include this letter with your payment so we can quickly identify and credit your account. If you think the amount shown below is incorrect because of a recent payment or for any other reason, please send the amount you believe is due and explain the difference on the back of this letter. Use the enclosed envelope to mail us your payment. The copy of this letter is for your records.

Enclosures:
Envelope
Copy of this letter
Publication 586A
Telephone Number Notice

Tax Form Number	1040
Tax Period Ended	12-31-82
Balance of Prior Assessments $	10,476.35
Late Payment Penalty	40.00
Interest	111.07
Total Amount Due ....$	10,627.42

Reply to: INTERNAL REVENUE SERVICE
P.O. BOX 57
BENSALEM, PA 19020

L. Jean West
1191 Beaumont Road
Berwyn, PA 19312

February 8, 1984

Internal Revenue Service
P. O. Box 57
Bensalem, PA 19020

Re: Loren J. & Ann M. West
276-22-2617 1982 Tax Return
Doc. Loc. Number 28222-115-60028-3

Dear Sir:

I am returning your Final Notice in regard to the above-referenced Document Number. Upon receipt of the original notice, I forwarded to you a photostatic copy of my cancelled check in the amount of $8,000.00 made payable to the Internal Revenue Service.

Upon receipt of a second notice, on September 27, 1983 at 10:45 a.m. I spoke with Mr. Collins in your office. He assurred me that the matter would be resolved and that you were in receipt of the photostatic copy of the check. Now you are sending me a Final Notice. On February 7, 1984 at 10:00 a.m. I spoke with Mrs. Green in your office. As per her instructions, I am returning this notice.

The resolution of this matter is entirely in your hands. Again, I am enclosing a photostatic copy of the cancelled check. It is apparent that the problem is with your office and until you have resolved this matter, I would appreciate you cancelling your lien enforcement procedures.

Sincerely,

Loren J. West

Enclosures

CM P352239434

Department of the Treasury
Internal Revenue Service

PHILADELPHIA, PA 19255

In reply refer to: 28010134
MAR. 05, 1984 LTR 86C
276-22-2617
00030

LOREN J & ANN M WEST
1191 BEAUMONT RD
BERWYN, PA 19312

Social Security Number: 276-22-2617
Form Number: 1040
Item Referred: Inquiry

Dear Taxpayers:

To provide you with better service, we are referring your inquiry to the Internal Revenue Service office at the address shown at the end of this letter. We are sending it to that office because--

your account and records are kept at that office.

They will answer you as soon as possible and if you have any questions, they will be glad to help you.

Sincerely yours,

Margaret J. Johnson

Chief, Delinquent Accounts Section

To: INTERNAL REVENUE SERVICE
600 ARCH STREET
PHILADELPHIA, PA 191060000

1-800-424-1040

orm 668-A(C)
ev. December 1982)

Department of the Treasury – Internal Revenue Service

Notice of Levy

0s 508 2301 23-01-s0-00

000095 23-0s35060

LVERN FEDERAL S L ASSOC.
EAST LANCASTER AVE
ADLI PA 1o301

See Part 4—Instructions for responding.

Date 03-05-84

Originating district PHILADELPHIA, PA

The taxpayer named at the bottom of this notice owes the United States ▶ $11,463.47

ied of Tax	Tax Period Ended	Date of Assessment	Unpaid Balance of Assessment	Statutory Additions	Total
060	12-31-s2	0,-22-s3	$ 10,476.35	$ 987.12	$ 11,463.47
				Total amount due ▶	$11,463.47

Chapter 64 of the Internal Revenue Code provides a lien for the above tax and statutory additions. Demand has been made on the taxpayer for the above amount that the taxpayer has neglected or refused to pay. This amount is still due, owing, and unpaid. All property, rights to property, money, credits, and bank deposits now in your possession and belonging to this taxpayer (or for which you are obligated) and all money or other obligations owing from you to this taxpayer, are levied upon for payment of the tax plus all additions provided by law. Demand is made on you either to pay this entire tax liability or to pay any smaller sum that you owe this taxpayer. Checks or money orders should be made payable to the Internal Revenue Service.

Signature

Title OFFICE MANAGER

Telephone number (215) 597-1595

Taxpayer Identifying Number 276-22-2617

Name and address of taxpayer

WEST, LOREN J & ANN M
1101 BEAUMONT RD
BERWYN, PA 19312

Internal Revenue Service mailing address

600 ARCH STREET
PHILADELPHIA, PA 19106

Certification of Service

I certify that this notice of levy was served by delivering a copy of it to the person named below.

Date and time

Signature of revenue officer or Service representative

Form **668-D**
(Rev. January 1981)

Department of the Treasury – Internal Revenue Service

Release of Levy

To
MALVERN FEDERAL S&L,
42 EAST LANCASTER AVE.
PAOLI, PA. 19301

On MARCH 5, 19 84, a notice of levy was served on you at 42 EAST LANCASTER AVE., PAOLI, PA. and demand was made for the surrender of all property, rights to property, money, credits, and bank deposits then in your possession, to the credit of, belonging to, or owned by LOREN J. & ANN M. WEST of 1191 BEAUMONT RD., BERWYN, PA. for unpaid internal revenue taxes, with additions provided by law which, at the time of the levy, amounted to $ 11,463.47.

Under the provisions of Internal Revenue Code section 6343, property, rights to property, money, credits, and bank deposits of more than $ 0 are released from the levy.

Dated at 724 E. MARKET ST., W. CHESTER (Place) MARCH 23, 19 84 (Date)

Signature Shirley R. Starke John Russo	Title 696-3005 Revenue Officer

Internal Revenue Code

Sec. 6343. Authority to Release Levy and Return Property

(a) Release of levy.—It shall be lawful for the Secretary, under regulations prescribed by the Secretary, to release the levy upon all or part of the property or rights to property levied upon where the Secretary determines that such action will facilitate the collection of the liability, but such release shall not operate to prevent any subsequent levy.

Part 2 — To Taxpayer

Form 668-D (Rev. 1-81)

LAW OFFICES
MacELREE, HARVEY, GALLAGHER, O'DONNELL & FEATHERMAN, LTD
17 WEST MINER STREET
POST OFFICE BOX 687
WEST CHESTER, PENNSYLVANIA 19381 0687
(215) 436-0100

LAWRENCE E. MacELREE
WILLIAM J. GALLAGHER
LAWRENCE W. O'DONNELL
JOHN A. FEATHERMAN, III
ROBERT J. SHENKIN
ROSS A. UNRUH
TERRY W. KNOX
RANDY L. SEBASTIAN
ELIZABETH R. HOWARD
MICHAEL C. GOELLER
MICHAEL G. LOUIS
MARY ANN ROSSI
RANDALL C. SCHAUER

COUNSEL
JOSEPH T. HARVEY

OF COUNSEL
SAMUEL LICHTENFELD
RICHARD D. ABBOTT

RICHARD REIFSNYDER
(1900-1970)
J. BARTON RETTEW, JR.
(1902-1981)

March 19, 1984

Internal Revenue Service
P.O. Box 12052
Philadelphia, Pa. 19106

Re: West, Loren J. and Ann M.
Taxpayer I.D. #276-22-2617

Dear Sir/Madam:

Please be advised that I represent Malvern Federal Savings and Loan Association, upon whom a levy was served in connection with the above captioned taxpayers.

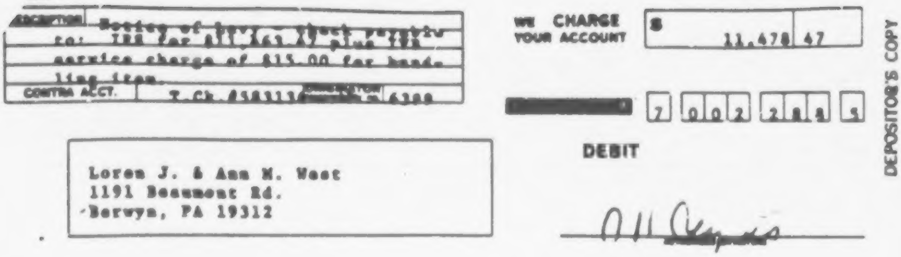
The Association has an account which appears to relate to one of the named taxpayers. The Association Account No. 10121306 is in the name of Loren J. West, and has a present balance of approximately $1,920.80. Please advise as to the disposition, if any, which you request with respect to this account.

Sincerely,

Robert J. Shenkin

RJS:kb
Enclosure

CC: Malvern Federal Savings and
Loan Association
Loren J. and Ann M. West



DESCRIPTION Notice of levy - check payable to: IRS for $11,463.47 plus IRS service charge of $15.00 for handling item.

CONTRA ACCT. T.Ch.#583313 6300

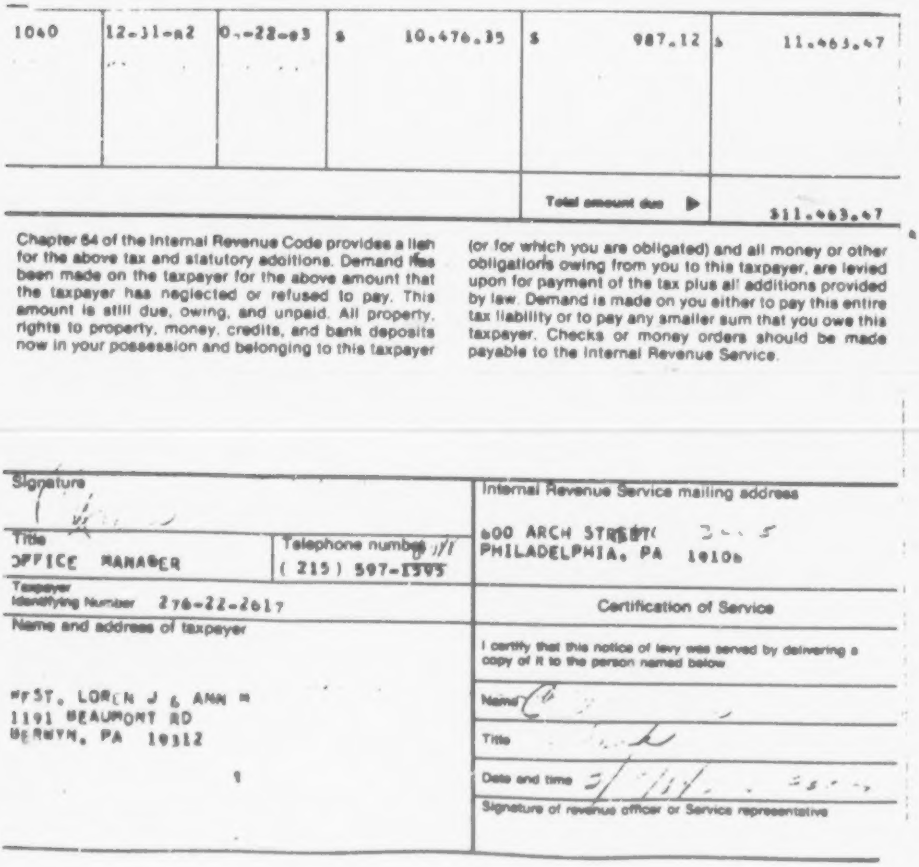
WE CHARGE YOUR ACCOUNT $ 11,478 47

[redacted] 7 0 0 2 2 8 8 5

DEBIT

Loren J. & Ann M. West
1191 Beaumont Rd.
Berwyn, PA 19312

DEPOSITOR'S COPY



1040	12-31-82	0.-22-83	$ 10,476.35	$ 987.12	$ 11,463.47
				Total amount due ▶	$11,463.47

Chapter 64 of the Internal Revenue Code provides a lien for the above tax and statutory additions. Demand has been made on the taxpayer for the above amount that the taxpayer has neglected or refused to pay. This amount is still due, owing, and unpaid. All property, rights to property, money, credits, and bank deposits now in your possession and belonging to this taxpayer (or for which you are obligated) and all money or other obligations owing from you to this taxpayer, are levied upon for payment of the tax plus all additions provided by law. Demand is made on you either to pay this entire tax liability or to pay any smaller sum that you owe this taxpayer. Checks or money orders should be made payable to the Internal Revenue Service.

Signature

Title
OFFICE MANAGER

Telephone number
(215) 597-1505

Taxpayer Identifying Number 276-22-2617

Name and address of taxpayer

WEST, LOREN J & ANN M
1191 BEAUMONT RD
BERWYN, PA 19312

Internal Revenue Service mailing address
600 ARCH STREET
PHILADELPHIA, PA 19106

Certification of Service

I certify that this notice of levy was served by delivering a copy of it to the person named below

Name

Title

Date and time

Signature of revenue officer or Service representative

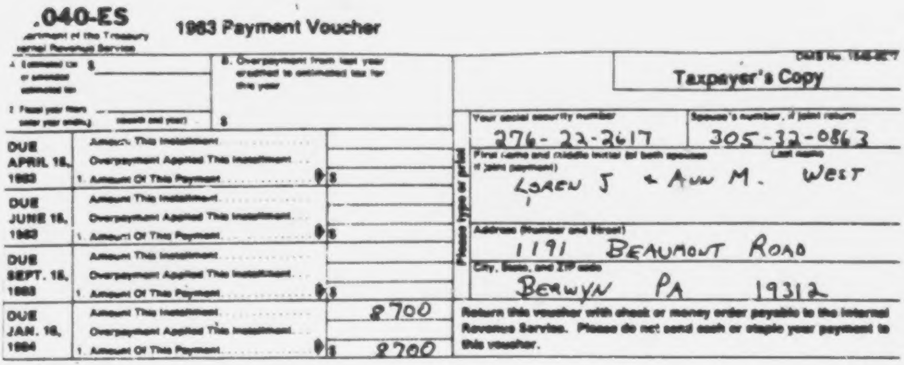
3/21 and
3/22

Called IRS

with Gene West to settle an incorrect levy situation

He will take all correspondence and cancelled checks to I.RS. - West Chester on 3/23/84

SB



.040-ES
artment of the Treasury
ernal Revenue Service

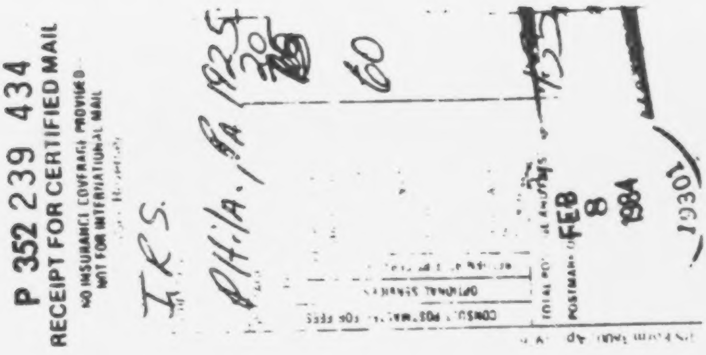
1983 Payment Voucher

Taxpayer's Copy

Your social security number: 276-22-2617
Spouse's number, if joint return: 305-32-0863
First name and middle initial (of both spouses if joint payment): LOREN J & ANN M.
Last name: WEST
Address (Number and Street): 1191 BEAUMONT ROAD
City, State, and ZIP code: BERWYN PA 19312

DUE APRIL 15, 1983	Amount This Installment	
	Overpayment Applied This Installment	
	1. Amount Of This Payment	$
DUE JUNE 15, 1983	Amount This Installment	
	Overpayment Applied This Installment	
	1. Amount Of This Payment	$
DUE SEPT. 15, 1983	Amount This Installment	
	Overpayment Applied This Installment	
	1. Amount Of This Payment	$
DUE JAN. 16, 1984	Amount This Installment	8700
	Overpayment Applied This Installment	
	1. Amount Of This Payment	$ 8700

Return this voucher with check or money order payable to the Internal Revenue Service. Please do not send cash or staple your payment to this voucher.

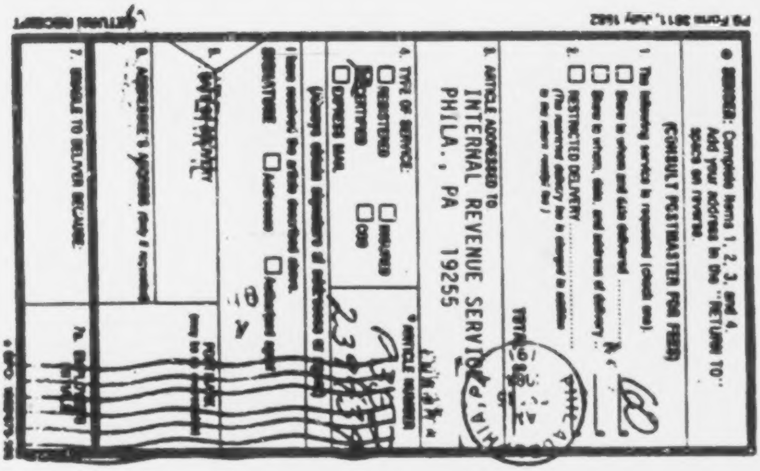


P 352 239 434
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

IRS
Phila, Pa 19255

20
60

POSTMARK
FEB
8
1984
19301



● SENDER: Complete items 1, 2, 3, and 4.
Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
☐ Show to whom and date delivered 60
☐ Show to whom, date, and address of delivery ..

2. ☐ RESTRICTED DELIVERY ....
(The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL

3. ARTICLE ADDRESSED TO
INTERNAL REVENUE SERVICE
PHILA., PA 19255

4. TYPE OF SERVICE:
☐ REGISTERED ☐ INSURED
☒ CERTIFIED ☐ COD
☐ EXPRESS MAIL

ARTICLE NUMBER
239

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

5. DATE OF DELIVERY

POSTMARK (may be on reverse side)

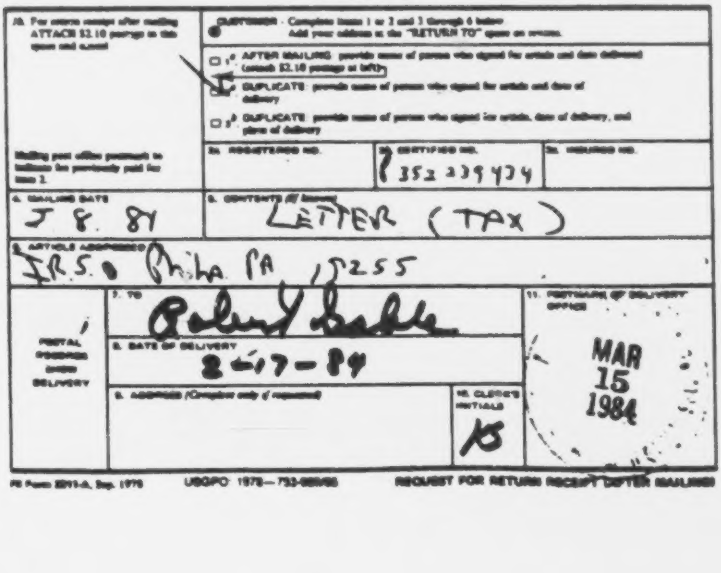
6. ADDRESSEE'S ADDRESS (Only if requested)

7. UNABLE TO DELIVER BECAUSE:

7a. EMPLOYEE'S INITIALS

RETURN RECEIPT

PS Form 3811, July 1982



10. For return receipt after mailing ATTACH $2.10 postage in this space and cancel

CUSTOMER: Complete items 1 or 2 and 3 through 6 below.
Add your address at the "RETURN TO" space on reverse.

☐ 1. AFTER MAILING: provide name of person who signed for article and date delivered (attach $2.10 postage at left)
☐ 2. DUPLICATE: provide name of person who signed for article and date of delivery
☐ 3. DUPLICATE: provide name of person who signed for article, date of delivery, and place of delivery

Mailing post office postmark to indicate fee previously paid for item 2.

3a. REGISTERED NO.
3b. CERTIFIED NO. P 352 239 434
3c. INSURED NO.

4. MAILING DATE J 8. 84
5. CONTENTS (If known) LETTER (TAX)

6. ARTICLE ADDRESSED IRS. Phila PA 19255

POSTAL PERSONNEL UPON DELIVERY

7. TO Robert

8. DATE OF DELIVERY 2-17-84

9. ADDRESS (Complete only if requested)

10. CLERK'S INITIALS

11. POSTMARK OF DELIVERY OFFICE
MAR
15
1984

PS Form 3811-A, Sep. 1978 USGPO: 1978—733-

REQUEST FOR RETURN RECEIPT AFTER MAILING

NOLL & COMPANY, INC.

PUBLIC ACCOUNTANTS

15 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3700

July 20, 1984

Internal Revenue Service
P.O. Box 12052
Phila., Pa. 19105
Attn: Mrs. Holmes/P & R Unit

RE: Loren & Ann West
S.S. # 276-22-2617
1040-1982

Dear Mrs. Holmes:

As per our phone conversation today, enclosed please find the copy (Front & Back) of the canceled check which is in question on the above tax year.

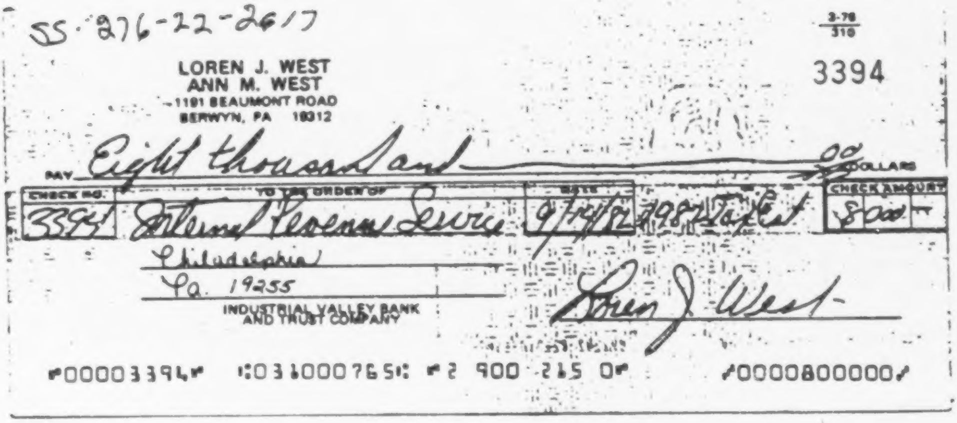
Also enclosed are letters from the taxpayer to IRS dated August 25, 1983, and February 6, 1984, along with IRS forms # 4602, # 668-A (C) and # 668-D.

As I explained on the phone, the payment of $ 8,000.00 apparently was credited to the wrong social security number. Please credit Mr. West's account for all monies shown due arising out of this error on the part of IRS.

I trust this will conclude any further problems, as the taxpayer has undergone much duress through no fault of his own.

Very Truly Yours,
P. Smith
P.L. Smith

cc: L. West
Encl.
PLS/lm



SS · 276-22-2617

$\frac{3\text{-}78}{310}$

LORAN J. WEST
ANN M. WEST
1191 BEAUMONT ROAD
BERWYN, PA 19312

3394

PAY Eight thousand and 00/00 DOLLARS

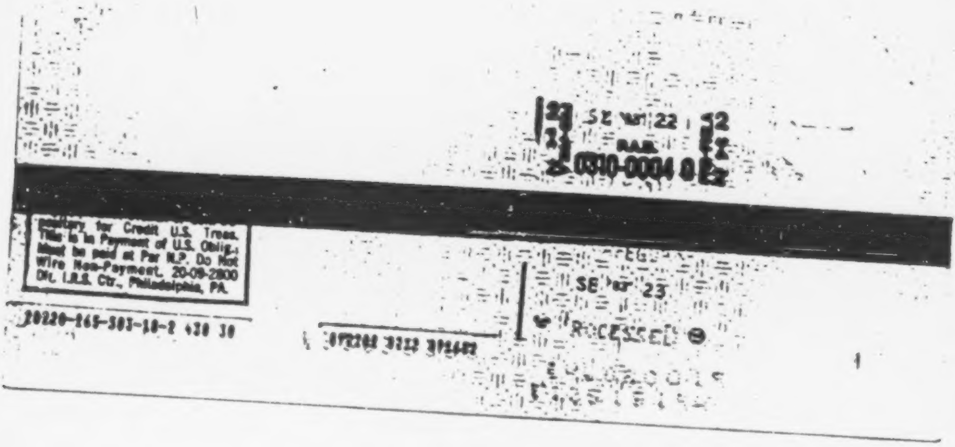
CHECK NO.	TO THE ORDER OF	DATE		CHECK AMOUNT
3394	Internal Revenue Service	9/14/82	1982 Tax Est	$8000 —

Philadelphia
Pa. 19255

INDUSTRIAL VALLEY BANK
AND TRUST COMPANY

Loren J. West

⑈00003394⑈ ⑆031000765⑆ ⑈2 900 215 0⑈ ⑉0000800000⑉



22 SE Mar 22 52

RAB.

0310-0004 8

[redacted]

pository for Credit U.S. Treas.
This is in Payment of U.S. Oblig.
Must be paid at Par N.P. Do Not
Wire Non-Payment. 20-09-2800
Dt. I.R.S. Ctr., Philadelphia, PA.

20220-265-303-18-2 430 30

073208 3222 302602

SE Mar 23

PROCESSED

Form **668-D**
(Rev. January 1981)

Department of the Treasury – Internal Revenue Service

Release of Levy

To
I VB
OLD YORK RD. & WEST AVE.
JENKINTOWN, PA. 19046

On MARCH 19, 19 84, a notice of levy was served on you at OLD YORK RD. & WEST AVE., JENKINTOWN, PA. and demand was made for the surrender of all property, rights to property, money, credits, and bank deposits then in your possession, to the credit of, belonging to, or owned by LOREN J. + ANN WEST of 1191 BEAUMONT RD., BERWYN, PA. for unpaid internal revenue taxes, with additions provided by law which, at the time of the levy, amounted to $ 11,463.47.

Under the provisions of Internal Revenue Code section 6343, property, rights to property, money, credits, and bank deposits of more than $ 0 are released from the levy.

Dated at 724 E. MARKET ST., WEST CHESTER, PA (Place) MARCH 23, 19 84 (Date).

Signature John	Title 696-3005 Revenue Officer

Internal Revenue Code

Sec. 6343. Authority to Release Levy and Return Property

(a) Release of levy.–It shall be lawful for the Secretary, under regulations prescribed by the Secretary, to release the levy upon all or part of the property or rights to property levied upon where the Secretary determines that such action will facilitate the collection of the liability, but such release shall not operate to prevent any subsequent levy.

[illegible] 3/23/84

Part 2 — To Taxpayer

Form 668-D (Rev. 1-81)

artment of the Treasury
ernal Revenue Service
P.O. BOX 57
BENSALEM, PA 19020

23
LOREM J & ANN M WEST
1191 BEAUMONT RD
BERWIN PA 19312

If you have any questions, refer to this information:

Date of This Notice: AUG. 22. 1983
Social Security Number: 276-22-2617
Document Locator Number: 28222-115-60028-3
Form 1040 Tax Year Ended: DEC. 31. 1982

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
P.O. BOX 57
BENSALEM, PA 19020

If you write, be sure to attach the bottom part of this notice

Correction to Estimated Tax and Arithmetic

In checking your income tax return, we had to make corrections for the reasons shown below.
An incorrect amount was claimed as estimated tax payments and credits (see the following Statement of Estimated Tax Account).

Payment Due By	SEP. 1. 1983	
Total Tax on Return	$ 25.661.00	
Corrected Balance of Tax on Return	$	25.661.00
Tax Withheld	2.589.00-	
Estimated Tax Payments	4.000.00-	
Other Credits	1.611.00-	
Other Payments	9.461.00-	
Total Payments and Credits	$	17.661.00-

UNDERPAID TAX	8.000.00
*Penalty	2.072.25
*Interest	404.10
Amount You Owe	$ 10.476.35

If you believe our records are not correct, please see the back of this notice for information about the amount you owe. Make your check or money order payable to Internal Revenue Service. Please show your social security number on your payment and mail it with the bottom part of this notice. An envelope is enclosed for your convenience. Thank you for your cooperation.

*See these code numbers 09.02.07
on the back for an explanation of penalty or interest charges.

PENALTY AMOUNTS: 02..$1.872.25 07...$200.00

Statement of Estimated Tax Account

Date Tax Payment Received	Description of Item	Amount	Document Locator Number
JAN. 19. 1983	PAYMENT	$4.000.00	28220021280873
	TOTAL ESTIMATED TAX CREDITS	$4.000.00	

Keep this part for your records.

Form [illegible] (Part 1) (Rev. [illegible])

rnal Revenue Service
istrict Director

Department of the Treasury

Date: 9/1/84

Social Security or
Employer Identification Number:
276-22-2617
Contact Telephone Number:
(215) 436-6072

Loren J. & Ann M West
1191 Beaumont Rd
Berwyn, PA 19312

R. C. LEE
REVENUE OFFICER
724 MARKET STREET
WEST CHESTER, PA 19380
PHONE:

FINAL NOTICE

Reply Within 10 Days to Avoid Enforcement Action and Additional Penalties

Although notices and demand have been made for payment of your Federal tax liability shown below, we have no record of receiving the amount due. This is your final notice before we proceed with enforcement action.

To prevent such action, send us, within 10 days from the date of this letter, your check or money order for the total amount due, payable to the Internal Revenue Service. Show your taxpayer identifying number (social security or employer identification number) on it and enclose this letter to assure prompt and accurate credit. An envelope is enclosed for your convenience. The copy of this letter is for your records.

If you have recently paid the amount due but your payment has not been credited to your account, or if you cannot pay this amount in full, please call us at the telephone number shown above within 10 days from the date of this letter.

If we do not receive your payment or if you do not contact our office, enforcement action may be taken at any time after 10 days from the date of this letter without any further notice to you. A Notice of Federal Tax Lien may be filed which constitutes public notice to your creditors that a tax lien exists against your property. Salary or wages due you may be levied upon, as provided by section 6331 of the Internal Revenue Code, by serving a notice of levy on your employer. Bank accounts, receivables, commissions, or other kinds of income you have are also subject to levy. Property or rights to property, such as automobiles, may also be seized and sold to satisfy your tax liability.

Form Number	Tax Period	Tax Balance	Accumulated Interest and Penalty	Amount You Owe
1040	1982	10476.35	2024.27	12500.62

in door 9/7/84 -
at Weste

Enclosures:
Envelope
Copy of this letter

OLL & COMPANY, INC.

PUBLIC ACCOUNTANTS

15 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3700

September 11, 1984

Internal Revenue Service
Attn: George C. Lee
724 Market St,
West Chester, Pa. 19380

RE: Loren & Ann West
S.S.# 276-22-2617
1040 - 1982

Dear Mr. Lee,

Pursuant to our telephone conversation today, I am forwarding to you a copy (front & back) of the cancelled check in the amount of $ 8,000.00 which apparently was never credited to the above tax year.

Numerous attempts have been made since March 1984 to rectify this problem. There should be no tax, penalty or interest due on this tax year.

Attached is original notice from Internal Revenue Service dated August 22, 1983, Internal Revenue Form 668-D releasing the previous lien, my letter of July 20, 1984 to P & R Unit explaining problem and your notice dated September 7, 1984.

Please correct the records to show the $ 8,000.00 payment credited to 1982 and no penalty or interest due.

Thank you in advance.

Very Truly Yours,

P. L. Smith

P.L. Smith

Encl.

cc: L. & A. West

PLS/lm

PUBLIC ACCOUNTANTS

16 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3750

September 27, 1984

Internal Revenue Service
11601 Roosevelt Blvd.
Phila., PA 19255
Attn: Mr. Andriano
Chief, Phila. Service Ctr.

Re: Loren & Ann West
S.S. # 276-22-2617
1040-1982

Dear Mr. Andriano:

Attached please find a FINAL NOTICE letter 1058 dated 9-7-84 received by the above taxpayer.

Since March 1983 the taxpayer has made numerous attempts to rectify this problem of incorrect tax balance. Enclosed is a copy of the front and back of the $8,000.00 check dated 9-14-82 which was never credited to Mr. West's 1982 return. We had sent this evidence of payment to the West Chester IRS office on March 23, 1984 and again on Sept. 11, 1984. This evidence of payment was also sent to the P & R Unit, Mrs. Holmes, on July 20, 1984.

To date this matter is still unsettled. I am requesting your assistance to have the payment credited to Mr. West's account (and any penalty or interest cancelled), as all of the many previous attempts have been unsuccessful.

This is the final time we shall forward proof of payment to IRS and if your office is unable to resolve the problem, we shall take it up with our congressman.

Thank you in advance.

Very Truly Yours

P.L. Smith

P.L. Smith

Encl: copy of ck. #3394, IRS letter 1058-9/7/84, Noll & Co. letter-9/11/84, Noll & Co. letter-7/20/84, IRS form 4602-8/22/83, IRS form 668-D-3/23/84, West letter 8/25/83, West letter-2/8/84, IRS letter-3/5/84, Form 2848 Power of Attorney.

cc: West
G.C. Lee
Mrs. Holmes, P & R Unit

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE ROUTE 401 & SWEDESFORD ROAD MALVERN PA 19355

OLL & COMPANY, INC.

PUBLIC ACCOUNTANTS

10 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3750

September 27, 1984

Internal Revenue Service
724 Market St.
West Chester, PA 19380
Attn: G.C. Lee

Re: Loren & Ann West
SS# 276-22-2617
1040-1982

Dear Mr. Lee:

This will confirm our conversation today regarding the above taxpayer and tax period. You informed me that the matter concerning the $8,000.00 estimated tax payment was taken off your collection list. You further stated you had sent the paperwork to Phila. for location of the check and collection proceedings had stopped.

I will expect a written response from you in approximately two weeks, after the check has been located, that this matter is fully resolved. The taxpayer should not be subject to any further notices of payment concerning this tax. Through no fault of his own Mr. West has suffered undue expense and mental duress.

On two previous occasions this matter was to have been cleared up by IRS. I trust this will finally conclude all problems. The IRS has had since March 1983 to clarify this.

I will look forward to your written notice that the matter is permanently closed. Thank You.

Very Truly Yours

P.L. Smith

P.L. Smith

cc: West
Dist. Director-IRS, Phila.
Mrs. Holmes-P&R Unit

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE: ROUTE 401 & SWEDESFORD ROAD, MALVERN, PA 19355

L & COMPANY, INC.

PUBLIC ACCOUNTANTS

16 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644 3750

October 10, 1984

Congressman Richard T. Schulze
2421 Rayburn Bldg.
Washington, D.C. 20515
Attn: Ellen Bradley

Dear Congressman Schulze:

Enclosed is a copy of canceled check # 3394 which was paid on September 14, 1982 to Internal Revenue Service as an estimated tax payment (S.S.# 276-22-2617).

Internal Revenue Service has not allowed the credit as of this date. On two separate occasions, my bank account has been liened, and they posted a notice on my house saying it would be sold at a Sherriffs Auction!

We have had both bank liens removed and stopped the Sherriffs Sale each time with our proof of payment.

Today the Internal Revenue Service notice I received said they have withheld by 1983 tax refund because of past tax liability unpaid! In the past they even told me that the $ 8,000.00 check had been credited to S.S.# 276-22-2917 instead of my number.

Copies of all correspondence is enclosed including a bill from my accountant. I have had one heart attack and feel like I could have another one over this unresolvable mess!

Can you help, please, once and for all to get proper credit for taxes I paid more than two years ago?

Please contact Noll & Company at the above address with your response.

Very Truly Yours,

Loren J. West

Loren J. West

Encl.

cc: A. Specter
LJW:lm

Internal Revenue Service
PHILADELPHIA, PA 19255

Date of This Notice: OCT. 8, 1984
Social Security Number: 276-[illegible]-2617
Document Locator Number: 28221-224-00587-4
Form: 1040 Tax Year Ended: DEC. 31, 1983

49
LOREN J & ANN M WEST
1191 BEAUMONT RD
BERWYN PA 19312

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach this notice. Include your telephone number and the best time to call.

OVERPAID TAX APPLIED TO
OTHER FEDERAL TAXES OWED

OUR RECORDS SHOW YOU OWED OTHER FEDERAL TAXES, SO $1,690.84 OF THE OVERPAID TAX ON YOUR TAX RETURN FOR THE ABOVE TAX YEAR HAS BEEN APPLIED TO THE UNPAID AMOUNT. THE FIGURES BELOW SHOW THE AMOUNT OF ANY REFUND DUE YOU.

YOU MAY HAVE RECENTLY MADE A PAYMENT ON THE TAXES YOU OWED AND IT WAS NOT CREDITED TO YOUR ACCOUNT WHEN YOUR OVERPAID TAX WAS APPLIED, OR YOU MAY STILL HAVE A REFUND DUE FOR THE ABOVE TAX YEAR. IF SO, A CHECK WILL BE SENT TO YOU FOR THE TOTAL AMOUNT DUE YOU IF IT IS MORE THAN $1. HOWEVER, IF THE AMOUNT DUE YOU IS LESS THAN $1, IT WILL BE SENT TO YOU ONLY IF YOU ASK FOR IT.

IF YOU HAVE ANY QUESTIONS, YOU MAY CALL OR WRITE US -- SEE THE INFORMATION IN THE UPPER RIGHT CORNER. TO MAKE SURE THAT IRS EMPLOYEES GIVE COURTEOUS RESPONSES AND CORRECT INFORMATION TO TAXPAYERS, A SECOND EMPLOYEE SOMETIMES LISTENS IN ON TELEPHONE CALLS.

THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

YOUR OVERPAID TAX ON RETURN........................		$1,690.84
AMOUNT OF OVERPAID TAX APPLIED...	$1,690.84	
AMOUNT OF INTEREST APPLIED.......	$.00	
TOTAL AMOUNT APPLIED (SEE BELOW)................		$1,690.84
AMOUNT TO BE REFUNDED TO YOU....................		$.00
(ANY INTEREST DUE YOU WILL BE ADDED)		

HOW YOUR OVERPAID TAXES WERE APPLIED

FORM(S)	TAX PERIOD(S)	AMOUNT(S) APPLIED
1040	DEC. 31, 1982	$1,690.84

If you have any questions, you may call or write--see the information in the upper right corner of this notice. To make sure that IRS em [illegible]

2848
(Rev. October 1983)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

▶ See separate instructions

OMB No. 1545-0150

PART I.— Power of Attorney

Taxpayer(s) name, identifying number, and address including ZIP code (Please type or print)

LOREN V. & ANN M. WEST 276-22-2617
1191 Beaumont Rd
Berwyn, Pa. 19312

For IRS Use Only		
File So.		
Level		
Receipt		
Powers		
Blind T.		
Action		
Ret Ind.		

hereby appoints (name(s), CAF number(s), address(es), including ZIP code(s), and telephone number(s) of individual(s)) *

RONALD L. NOLL, P.A.E.A. &/or PAMELA L. SMITH
NOLL & CO., INC.
18 E. Lancaster Ave.
Malvern, Pa. 19355

as attorney(s)-in-fact to represent the taxpayer(s) before any office of the Internal Revenue Service for the following tax matter(s) (specify the type(s) of tax and year(s) or period(s) (date of death if estate tax)):

Type of tax (individual, corporate, etc.)	Federal tax form number (1040, 1120, etc.)	Year(s) or period(s) (Date of death if estate tax)
INDIVIDUAL	1040	1982, 1983

The attorney(s)-in-fact (or either of them) are authorized, subject to revocation, to receive confidential information and to perform any and all acts that the principal(s) can perform with respect to the above specified tax matters (excluding the power to receive refund checks, and the power to sign the return (see regulations section 1.6012-1(a)(5), Returns made by agents), unless specifically granted below).

Send copies of notices and other written communications addressed to the taxpayer(s) in proceedings involving the above tax matters to:

1 ☐ the appointee first named above, or
2 ☒ (names of not more than two of the above named appointees) Ronald L. Noll and /or Pamela L. Smith

Initial here ▶ .... if you are granting the power to receive, but not to endorse or cash, refund checks for the above tax matters to:

3 ☐ the appointee first named above, or
4 ☐ (name of one of the above designated appointees) ▶ ....

This power of attorney revokes all earlier powers of attorney and tax information authorizations on file with the Internal Revenue Service for the same tax matters and years or periods covered by this power of attorney, except the following:

(Specify to whom granted, date, and address including ZIP code, or refer to attached copies of earlier powers and authorizations.)

Signature of or for taxpayer(s)
(If signed by a corporate officer, partner, or fiduciary on behalf of the taxpayer, I certify that I have the authority to execute this power of attorney on behalf of the taxpayer.)

Loren J. West (Signature) .... (Title, if applicable) March 22, 1984 (Date)

(Also type or print your name and title if signing for a taxpayer who is not an individual.)

Ann M. West (Signature) .... (Title, if applicable) March 22, 1984 (Date)

* You may authorize an organization, firm, or partnership to receive confidential information, but your representative must be an individual who must complete Part II.

For Privacy Act and Paperwork Reduction Act Notice, see page 1 of the Instructions.

see page 738,303

If the power of attorney is granted to a person other than an attorney, certified public accountant, enrolled agent, or enrolled actuary, the taxpayer(s) signature must be witnessed or notarized below. (The representative must complete Part II. Only representatives listed there are recognized to practice before the Internal Revenue Service.)

The person(s) signing as or for the taxpayer(s): (Check and complete one.)

☐ is/are known to and signed in the presence of the two disinterested witnesses whose signatures appear here:

.... (Signature of Witness) .... (Date)

.... (Signature of Witness) .... (Date)

☐ appeared this day before a notary public and acknowledged this power of attorney as a voluntary act and deed.

Witness: .... (Signature of Notary) .... (Date) NOTARIAL SEAL (If required by State law)

PART II.—Declaration of Representative

I declare that I am not currently under suspension or disbarment from practice before the Internal Revenue Service, that I am aware of Treasury Department Circular No. 230 as amended (31 C.F.R. Part 10), Regulations governing the practice of attorneys, certified public accountants, enrolled agents, enrolled actuaries, and others, and that I am one of the following:

1 a member in good standing of the bar of the highest court of the jurisdiction indicated below;
2 duly qualified to practice as a certified public accountant in the jurisdiction indicated below;
3 enrolled as an agent prusuant to the requirements of Treasury Department Circular No. 230;
4 a bona fide officer of the taxpayer organization;
5 a full-time employee of the taxpayer;
6 a member of the taxpayer's immediate family (spouse, parent, child, brother or sister);
7 a fiduciary for the taxpayer;
8 an enrolled actuary (the authority of an enrolled actuary to practice before the Service is limited by section 10.3(d)(1) of Treasury Department Circular No. 230);
9 Commissioner's special authorization (see instructions for Part II, item 9) ....;

and that I am authorized to represent the taxpayer identified in Part I for the tax matters there specified.

Designation (Insert appropriate number from above list)	Jurisdiction (State, etc.) or Enrollment Card Number	Signature	Date
3	33832	RL Noll Pd. E.A.	3-22-84

Form **2848**
(Rev. October 1983)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

▶ See separate instructions

OMB No. 1545-0150

PART I.— Power of Attorney

Taxpayer(s) name, identifying number, and address including ZIP code (Please type or print)

Loren V. & Ann M. West 276-22-2617
1191 Beaumont Road
Berwyn, Pa. 19312

For IRS Use Only		
File So.		
Level		
Receipt		
Powers		
Blind T.		
Action		
Ret Ind		

hereby appoints (name(s), CAF number(s), address(es), including ZIP code(s), and telephone number(s) of individual(s)) *

Ronald L. Noll, P.A.,E.A. &/or Pamela L. Smith
2600-45145R 207-40-1669
Noll & Company, Inc.
18 E. Lancaster Ave.
Malvern, Pa. 19355
(215) 644-3750

as attorney(s)-in-fact to represent the taxpayer(s) before any office of the Internal Revenue Service for the following tax matter(s) (specify the type(s) of tax and year(s) or period(s) (date of death if estate tax)):

Type of tax (Individual, corporate, etc.)	Federal tax form number (1040, 1120, etc.)	Year(s) or period(s) (Date of death if estate tax)
Individual	1040	1982, 1983

The attorney(s)-in-fact (or either of them) are authorized, subject to revocation, to receive confidential information and to perform any and all acts that the principal(s) can perform with respect to the above specified tax matters (excluding the power to receive refund checks, and the power to sign the return (see regulations section 1.6012-1(a)(5), Returns made by agents), unless specifically granted below).

Send copies of notices and other written communications addressed to the taxpayer(s) in proceedings involving the above tax matters to:

1 ☐ the appointee first named above, or
2 ☒ (names of not more than two of the above named appointees) Ronald L. Noll and/or Pamela L. Smith

Initial here ▶ .... if you are granting the power to receive, but not to endorse or cash, refund checks for the above tax matters to:

3 ☐ the appointee first named above, or
4 ☐ (name of one of the above designated appointees) ▶ ....

This power of attorney revokes all earlier powers of attorney and tax information authorizations on file with the Internal Revenue Service for the same tax matters and years or periods covered by this power of attorney, except the following:

....
....
(Specify to whom granted, date, and address including ZIP code, or refer to attached copies of earlier powers and authorizations.)

Signature of or for taxpayer(s)

(If signed by a corporate officer, partner, or fiduciary on behalf of the taxpayer, I certify that I have the authority to execute this power of attorney on behalf of the taxpayer.)

Loren V. West (Signature) .... (Title, if applicable) March 22, 1984 (Date)

(Also type or print your name below if signing for a taxpayer who is not an individual.)

Ann M. West (Signature) .... (Title, if applicable) Mar 22, 1984 (Date)

* You may authorize an organization, firm, or partnership to receive confidential information, but your representative must be an individual who must complete Part II.

For Privacy Act and Paperwork Reduction Act Notice, see page 1 of the Instructions.

Form **2848** (Rev. 10-83)

[illegible] 738.393

power of attorney is granted to a person other than an attorney, certified public accountant, enrolled agent, or enrolled actuary, the ayer(s) signature must be witnessed or notarized below. (The representative must complete Part II. Only representatives listed there recognized to practice before the Internal Revenue Service.)

The person(s) signing as or for the taxpayer(s): (Check and complete one.)

☐ is/are known to and signed in the presence of the two disinterested witnesses whose signatures appear here:

(Signature of Witness) (Date)

(Signature of Witness) (Date)

☐ appeared this day before a notary public and acknowledged this power of attorney as a voluntary act and deed.

Witness: (Signature of Notary) (Date) NOTARIAL SEAL (if required by State law)

ART II.—Declaration of Representative

I declare that I am not currently under suspension or disbarment from practice before the Internal Revenue Service, that I am aware of reasury Department Circular No. 230 as amended (31 C.F.R. Part 10), Regulations governing the practice of attorneys, certified public ccountants, enrolled agents, enrolled actuaries, and others, and that I am one of the following:

1 a member in good standing of the bar of the highest court of the jurisdiction indicated below;
2 duly qualified to practice as a certified public accountant in the jurisdiction indicated below;
3 enrolled as an agent prusuant to the requirements of Treasury Department Circular No. 230;
4 a bona fide officer of the taxpayer organization;
5 a full-time employee of the taxpayer;
6 a member of the taxpayer's immediate family (spouse, parent, child, brother or sister);
7 a fiduciary for the taxpayer;
8 an enrolled actuary (the authority of an enrolled actuary to practice before the Service is limited by section 10.3(d)(1) of Treasury Department Circular No. 230);
9 Commissioner's special authorization (see instructions for Part II, item 9) ;

and that I am authorized to represent the taxpayer identified in Part I for the tax matters there specified.

Designation (insert appropriate number from above list)	Jurisdiction (State, etc.) or Enrollment Card Number	Signature	Date
3	33 832	R E Noll-PA EA	3-22-84
7	2605-01682R	Pamela L. Smith	3-22-84

[illegible], Pennsylvania

Congreſs of the United States

House of Representatives • Washington, D.C. 20515

October 15, 1984

Mr. Loren J. West
Noll & Company
18 E. Lancaster Avenue
Malvern, Pennsylvania 19355

Dear Mr. West:

Thank you for your recent letter. Please be assured that I will do all I properly can to be of help to you.

In an effort to be of assistance, I have contacted the proper authorities on your behalf. Just as soon as I receive a reply, I will contact you.

Sincerely,

RICHARD T. SCHULZE
Member of Congress

RTS/eb

Form

PLEASE RESPOND TO:

☐ [illegible] Rayburn House Office Building
Washington, D.C. [illegible]
[illegible]

☐ 2 East Lancaster Avenue
Paoli, Pennsylvania [illegible]
[illegible] (toll free)
[illegible]

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

OCT 24 1984

Control No: C000019376

The Honorable Richard T. Schulze
House of Representatives
Washington, DC 20515

Person to Contact:
Ann Lea
Telephone Number:
(202) 566-9883
Refer Reply to:
C:L
Date:
22 OCT 1984

Dear Mr. Schulze:

This is to acknowledge receipt of your inquiry dated [illegible]tober 10, 1984 in behalf of Mr. Loren J. West of Malvern, Penns[illegible]ia.

Because of the nature of your inquiry, your letter has been referred to the appropriate Service Center Director.

Sincerely yours,

Ann Lea
for
Damon O. Holmes
Director
Legislative Affairs Division

Internal Revenue Service (Problem Resolution Office

276-22-2617
1040-1982

Date: Oct 23, 1984

Dear Mr & Mrs West,

In order to research your payment of $8,000.00, we will need another copy of the front and back of your cancelled check.

We are sorry for the inconvenience, but the copy sent to us from our District Office has not reached us.

Also, we have no record of a Power of Attorney for Noll & Co. If you wish to have us work with your accountant, we will need a Power of Attorney.

I have enclosed an envelope and would appreciate the information in ten days.

Thank you for your Cooperation.

Elaine Molinari
Collection Branch

(215) 969-2671
Not a Toll free number

Form 5260A (1-83) Department of the Treasury

GPO 874 386

[illegible]

Congress of the United States
House of Representatives • Washington, D.C. 20515

October 26, 1984

Mr. Loren J. West
Noll & Company
18 E. Lancaster Avenue
Malvern, Pennsylvania 19355

Dear Mr. West:

Enclosed is a copy of an interim reply that I have recently received from the Internal Revenue Service.

Please be assured that, as soon as further information is forwarded to me concerning the inquiry made on your behalf, I will be in touch with you promptly.

In the meantime, thank you for your patience.

With best wishes, I am

Sincerely,

RICHARD T. SCHULZE
Member of Congress

RTS/eb
Enclosure

PLEASE RESPOND TO:

☐ [illegible]
Washington, D.C. [illegible]
[illegible]

☐ [illegible]
[illegible]
[illegible]
[illegible]

Internal Revenue Service Department of the Treasury

Director
Internal Revenue
Service Center

Mid-Atlantic Region
Philadelphia, Pa

P.O. Box 69, Cornwells Heights, Pa. 19020

October 31, 1984

Honorable Richard T. Schulze
House of Representatives
2421 Rayburn Building
Washington, DC 20515

Dear Mr. Schulze:

Thank you for your letter advising us of the problem Mr. and Mrs. Loren J. West are having with their 1983 income tax return.

We are securing additional information necessary to resolve this problem. As soon as we receive the requested information, we will send you our final reply.

We appreciate your interest in this matter.

Sincerely yours,

Michael Kuntz

Michael Kuntz
Acting Director

[illegible] Pennsylvania

Congress of the United States

House of Representatives • Washington, D.C. 20515

November 8, 1984

Mr. Loren J. West
Noll & Company
18 E. Lancaster Avenue
Malvern, Pennsylvania 19355

Dear Mr. West:

Enclosed is the latest letter I have received concerning the inquiry I made on your behalf.

Please be assured of my continuing interest in this matter and I will be in touch with you once again when I have something additional to report.

With best wishes, I am

Sincerely,

RICHARD T. SCHULZE
Member of Congress

RTS/eb
Enclosure

PLEASE RESPOND TO:

☐ [illegible] Rayburn House Office Building
Washington, D.C. 20515
[illegible]

☐ 2 East Lancaster Avenue
Paoli, Pennsylvania [illegible]
[illegible] (Toll free)
[illegible]

NOLL & COMPANY, INC.

PUBLIC ACCOUNTANTS

18 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3756

November 2, 1984

Internal Revenue Service
Problem Resolutions Center
P.O. Box 16053
Philadelphia, Pa. 19114
Attn: E. Molizan

RE: Loren & Ann West
S.S.# 276-22-2617
Form 1040 - 1982

Dear Ms. Molizan:

Enclosed please find a copy of the front and back of check # 3394 dated 9-14-82 in the amount of $ 8,000.00 which you requested be forwarded to you per your letter dated 10-23-84.

Also enclosed is a properly executed Power of Attorney which you stated you did not have on file for Noll & Company, Inc.

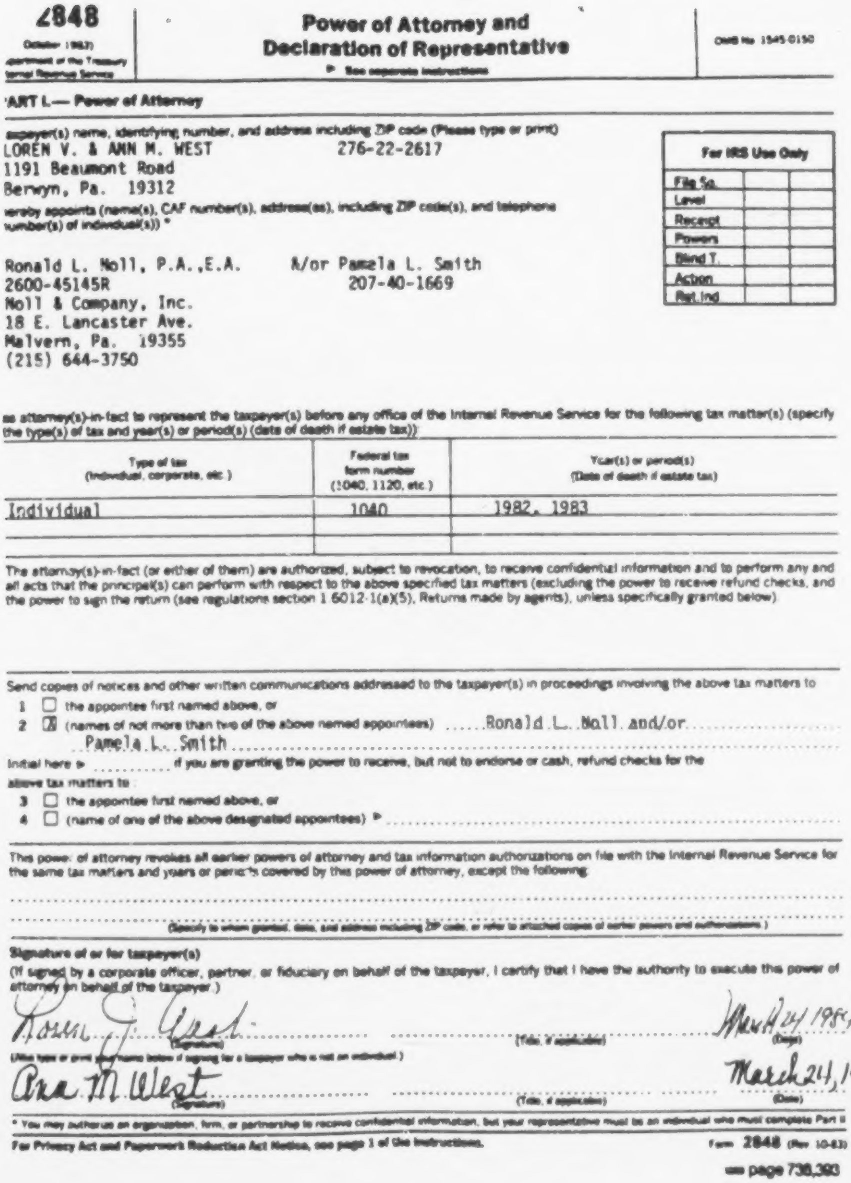
It should be noted that this is the 10th time Internal Revenue Service has been forwarded a copy of the check in question and the third time a Power of Attorney was sent to Internal Revenue Service.

Accordingly, I cannot stress enough the exasperation felt by the taxpayer at this point. Thank you for your prompt and diligent attention.

Very Truly Yours,
P.L. Smith
P.L. Smith

Encl.
cc: Congressman Schulze
A. Specter
L. West

PS:lm



2848
October 1983)
epartment of the Treasury
ternal Revenue Service

Power of Attorney and Declaration of Representative

▶ See separate instructions

OMB No. 1545-0150

'ART I.— Power of Attorney

axpayer(s) name, identifying number, and address including ZIP code (Please type or print)

LOREN V. & ANN M. WEST 276-22-2617
1191 Beaumont Road
Berwyn, Pa. 19312

For IRS Use Only		
File No.		
Level		
Receipt		
Powers		
Blind T.		
Action		
Ret. Ind		

ereby appoints (name(s), CAF number(s), address(es), including ZIP code(s), and telephone umber(s) of individual(s)) *

Ronald L. Noll, P.A.,E.A. A/or Pamela L. Smith
2600-45145R 207-40-1669
Noll & Company, Inc.
18 E. Lancaster Ave.
Malvern, Pa. 19355
(215) 644-3750

as attorney(s)-in-fact to represent the taxpayer(s) before any office of the Internal Revenue Service for the following tax matter(s) (specify the type(s) of tax and year(s) or period(s) (date of death if estate tax)):

Type of tax (Individual, corporate, etc.)	Federal tax form number (1040, 1120, etc.)	Year(s) or period(s) (Date of death if estate tax)
Individual	1040	1982, 1983

The attorney(s)-in-fact (or either of them) are authorized, subject to revocation, to receive confidential information and to perform any and all acts that the principal(s) can perform with respect to the above specified tax matters (excluding the power to receive refund checks, and the power to sign the return (see regulations section 1.6012-1(a)(5), Returns made by agents), unless specifically granted below).

Send copies of notices and other written communications addressed to the taxpayer(s) in proceedings involving the above tax matters to

1 ☐ the appointee first named above, or
2 ☒ (names of not more than two of the above named appointees) ......Ronald L. Noll and/or Pamela L. Smith

Initial here ▶ .... if you are granting the power to receive, but not to endorse or cash, refund checks for the above tax matters to:

3 ☐ the appointee first named above, or
4 ☐ (name of one of the above designated appointees) ▶ ....

This power of attorney revokes all earlier powers of attorney and tax information authorizations on file with the Internal Revenue Service for the same tax matters and years or periods covered by this power of attorney, except the following:

....
....
(Specify to whom granted, date, and address including ZIP code, or refer to attached copies of earlier powers and authorizations.)

Signature of or for taxpayer(s)

(If signed by a corporate officer, partner, or fiduciary on behalf of the taxpayer, I certify that I have the authority to execute this power of attorney on behalf of the taxpayer.)

Loren J. West .... (Signature) .... (Title, if applicable) March 24, 1984 (Date)

(Also type or print your name below if signing for a taxpayer who is not an individual.)

Ann M. West .... (Signature) .... (Title, if applicable) March 24, 1984 (Date)

* You may authorize an organization, firm, or partnership to receive confidential information, but your representative must be an individual who must complete Part II

For Privacy Act and Paperwork Reduction Act Notice, see page 1 of the Instructions.

Form **2848** (Rev. 10-83)

see page 738,393

ower of attorney is granted to a person other than an attorney, certified public accountant, enrolled agent, or enrolled actuary, the ayer(s) signature must be witnessed or notarized below. (The representative must complete Part II. Only representatives listed there recognized to practice before the Internal Revenue Service.)

The person(s) signing as or for the taxpayer(s): (Check and complete one.)

☐ is/are known to and signed in the presence of the two disinterested witnesses whose signatures appear here:

1 .... (Signature of Witness) .... (Date)

2 .... (Signature of Witness) .... (Date)

☐ appeared this day before a notary public and acknowledged this power of attorney as a voluntary act and deed.

Witness: .... (Signature of Notary) .... (Date) NOTARIAL SEAL (if required by State law)

ART II.—Declaration of Representative

I declare that I am not currently under suspension or disbarment from practice before the Internal Revenue Service, that I am aware of easury Department Circular No. 230 as amended (31 C.F.R. Part 10), Regulations governing the practice of attorneys, certified public countants, enrolled agents, enrolled actuaries, and others, and that I am one of the following:

1 a member in good standing of the bar of the highest court of the jurisdiction indicated below;
2 duly qualified to practice as a certified public accountant in the jurisdiction indicated below;
[✓ 3] enrolled as an agent pursuant to the requirements of Treasury Department Circular No. 230;
4 a bona fide officer of the taxpayer organization;
5 a full-time employee of the taxpayer;
6 a member of the taxpayer's immediate family (spouse, parent, child, brother or sister);
7 a fiduciary for the taxpayer;
8 an enrolled actuary (the authority of an enrolled actuary to practice before the Service is limited by section 10.3(d)(1) of Treasury Department Circular No. 230);
9 Commissioner's special authorization (see instructions for Part II, item 9) ....;

nd that I am authorized to represent the taxpayer identified in Part I for the tax matters there specified.

Designation (Insert appropriate number from above list)	Jurisdiction (State, etc.) or Enrollment Card Number	Signature	Date
3	33832	R L Noll PA. E.A.	3-22-84
7	2605-01682R	Pamela L. Smith	3-22-84

Internal Revenue Service Department of the Treasury

Director
Internal Revenue
Service Center

Mid-Atlantic Region
Philadelphia, Pa.

P.O. Box 69, Cornwells Heights, Pa. 19020

November 14, 1984

Honorable Richard T. Schulze
House of Representatives
2421 Rayburn Building
Washington, DC 20515

Dear Mr. Schulze:

This is in further response to your letter advising us of the problem Mr. and Mrs. Loren J. West are having with their 1982 and 1983 income tax returns.

A review of the 1982 account indicates that we have applied the taxpayers' payment of $8,000.00, dated September 22, 1982, and this account is now in zero balance.

A refund of $1,690.84, plus allowable interest, was authorized on the taxpayers' 1983 account. The taxpayers will receive the refund check within the next two weeks.

Please extend our apology to Mr. and Mrs. West for the delay in crediting their payment to their 1982 account and the delay in issuing their refund on the 1983 account.

We appreciate your interest in this matter.

Sincerely yours,

Norman E Morrill

Norman E. Morrill
Director

[illegible]
[illegible] District, Pennsylvania

COMMITTEE

Congress of the United States
House of Representatives • Washington, D.C. 20515

November 19, 1984

Mr. Loren J. West
Noll & Company
18 E. Lancaster Avenue
Malvern, Pennsylvania 19355

Dear Mr. West:

I am most pleased to forward the enclosed report from the Internal Revenue Service.

I know that this has been a long, as well as exasperating experience for you and I am glad it has been resolved in your favor.

It has been a pleasure for me to have had the opportunity to help you in this matter. Please feel free to contact me in the future anytime I may be of further assistance in any federal matter.

Sincerely,

RICHARD T. SCHULZE
Member of Congress

RTS:eb
enclosure

Rec'd 11 23 84
ps

PLEASE RESPOND TO:
☐ [illegible] Rayburn House Office Building
Washington, D.C. 20515
[illegible]

☐ [illegible] East Lancaster Avenue
Paoli, Pennsylvania [illegible]
[illegible]

OLL & COMPANY, INC

PUBLIC ACCOUNTANTS

18 E. LANCASTER AVENUE
MALVERN PENNSYLVANIA 19355
TELEPHONE (215) 644-3750

December 11, 1984

Loren J. & Ann West
1191 Beaumont Road
Berwyn, Pa. 19312

Dear Mr. & Mrs. West,

Enclosed you will find copies of correspondence we received from Congressman Schulze and the Internal Revenue Service regarding your problems with IRS. We also received a phone call today from Senator Heinz and Senator Spector's office today and we told them we are sure the problem is straightened out now. They said to call them if we have any further problems.

We are also issuing you a $ 67.20 credit on your November invoice regarding your amended returns. You should not have been billed for those. If you have any further questions, please do not hesitate to call.

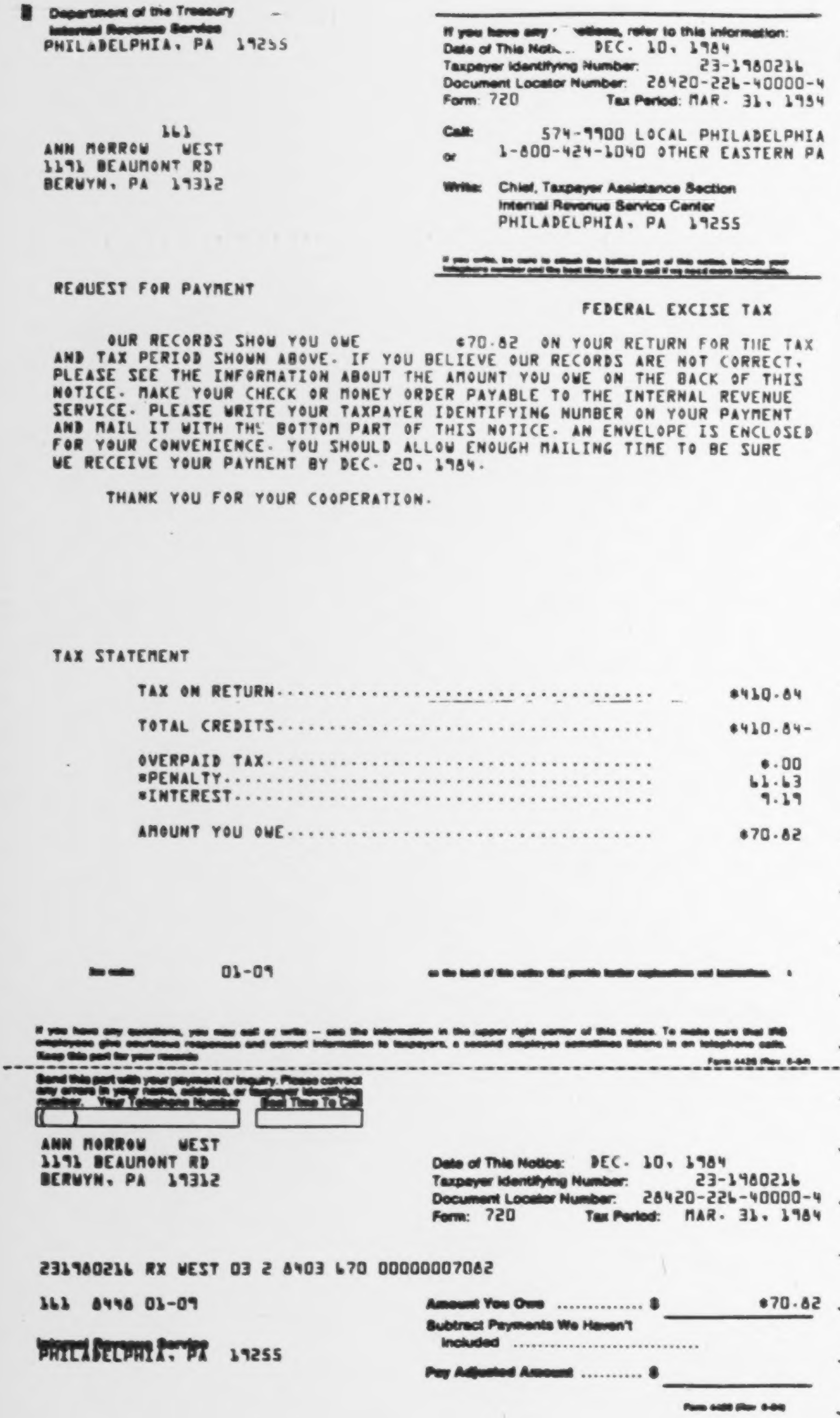
Very Truly Yours,

Ronald L. Noll, P.A., E.A.

Encl.

RLN:lm

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE ROUTE 401 & SWEDESFORD ROAD MALVERN, PA 19355



Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

161
ANN MORROW WEST
1191 BEAUMONT RD
BERWYN, PA 19312

If you have any questions, refer to this information:
Date of This Notice: DEC. 10, 1984
Taxpayer Identifying Number: 23-1980216
Document Locator Number: 28420-226-40000-4
Form: 720 Tax Period: MAR. 31, 1984

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice. Include your telephone number and the best time for us to call if we need more information.

REQUEST FOR PAYMENT

FEDERAL EXCISE TAX

OUR RECORDS SHOW YOU OWE $70.82 ON YOUR RETURN FOR THE TAX AND TAX PERIOD SHOWN ABOVE. IF YOU BELIEVE OUR RECORDS ARE NOT CORRECT, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE ON THE BACK OF THIS NOTICE. MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. PLEASE WRITE YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. YOU SHOULD ALLOW ENOUGH MAILING TIME TO BE SURE WE RECEIVE YOUR PAYMENT BY DEC. 20, 1984.

THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

TAX ON RETURN	$410.84
TOTAL CREDITS	$410.84-
OVERPAID TAX	$.00
*PENALTY	61.63
*INTEREST	9.19
AMOUNT YOU OWE	$70.82

See notice 01-09 on the back of this notice that provide further explanations and instructions.

If you have any questions, you may call or write — see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.
Keep this part for your records

Form 4428 (Rev. 6-84)

Send this part with your payment or inquiry. Please correct any errors in your name, address, or taxpayer identifying number.

Your Telephone Number	Best Time To Call
( )	

ANN MORROW WEST
1191 BEAUMONT RD
BERWYN, PA 19312

Date of This Notice: DEC. 10, 1984
Taxpayer Identifying Number: 23-1980216
Document Locator Number: 28420-226-40000-4
Form: 720 Tax Period: MAR. 31, 1984

231980216 RX WEST 03 2 8403 670 00000007082

161 8498 01-09

Internal Revenue Service
PHILADELPHIA, PA 19255

Amount You Owe .... $	$70.82
Subtract Payments We Haven't Included	
Pay Adjusted Amount .... $	

Form 4428 (Rev. 6-84)

RAIL TRAC ASSOCIATES
(215) 935-9221
320 HOWELL ROAD, MALVERN, PA. 19355
Property Consultant Service

March 2, 1985

Mr. Ronald L. Noll, P.A.
18 E. Lancaster Avenue
Malvern, Pennsylvania 19355

RE: IRS Deposit Problem

Dear Ron:

Pursuant to our recent discussion, please forward the text of this letter to Rep. Schulze and anyone else you feel should be advised of the antics of the IRS.

As you are aware, mine is a small business, sole proprietorship. I make monthly deposits to the IRS for FICA and Federal witholding tax. Until 1984, I had no problem with this procedure. In June, a Chinese fire drill began at my expense and is still not resolved. In that month I received a notice from the IRS advising that my deposit for the 1st Quarter'84 was overdue. I responded by sending copies of my cancelled checks and requested they correct their records. Their first notice was dated June 11, 1984 (Form 4428). My response was acknowledged and followed by these items:

08/07/84: Handwritten note from an IRS examiner advising my payment had been located.

09/03/84: Form 5238 received advising my 1st. Qtr. was past due and pay't due immediately.

09/03/84: Form 4356A received advising the IRS had transferred a credit due me on my 1983 1040 Personal Taxes as part pay't of the 1st Qtr. deposit.....

09/15/84: I wrote to IRS expressing my consternation; sent additional copies of what I had sent earlier.

09/21/84: My correspondence acknowledged with report they were investigating the matter.

10/12/84: Form 4839 received demanding pay't of 1st Qtr and penalties; threatening lien & seizures.

10/17/84: I called IRS somewhat enraged. They would check & call back w/in two weeks.

10/29/84: Notice from Collection Branch advising they had located payment and no further action required.

12/07/84: Handwritten note from an examiner requesting copies of my checks for the 1st. Qtr. deposits!!!

12/19/84: Handwritten note from a different examiner advising they had received my letter of 9-18-84 and requesting copies of my deposit checks for 1st. Qtr.!!!!

01/07/85: I received a call from the Collection Bureau (branch), informing me that, in addition to my 1st Qtr. being way over-due, my 3rd Qtr. deposit was also unpaid.

** I had made all deposits on time**

01/11/85: I went to Collection Branch in Phila.,N 6th., and met for two hours with a very helpful and sympathetic lady who expressed her own frustration with the agency. She reviewed all of my cancelled checks and all of the above items. Her conclusion was that I should not have been sent to Collection, I should be with the Problem Resolution Office.and she would refer my case there. I asked her how we could bring a halt to this fiasco and she had no idea except I might contact my Congressman!

01/28/85: Notice from Problem Resolution Office advising they had received my case and would be in touch.

02/20/85: Handwritten note from Problem Resolution Officer advising she had referred my case to the Philadelphia Service Ctr. for "Tracer Action"!

I anxiously await the next notice in this IRS version of Trivia Pursuit. The whole thing is a travesty. I make my deposits as required and end up being harrassed by incompetent civil servants in an incompetent agency that is operated with my tax dollars. This matter is obviously still not resolved. My lost work time in trying to resolve it has cost me over $1200 to date and I still have/ not received the 1040 money back.

I wish you success in presenting my experienceto whomever you feel will attempt to correct a sad situation. I have enclosed copies of all of the above items.

Yours truly,

John G. Pinto

Internal Revenue Service **Problem Resolution Office**

RE 23-2229055 941 3/31/84

Date: 2-20-85

Dear Mr. [illegible]

In reference to your recent Problem Resolution Inquiry on the account above, I have transferred your case to our Philadelphia Service Center for payment tracer action.

I will continue to monitor your case and inform you of the final action taken.

215-597-6293

Form 5260A (1-83) Department of the Treasury

GPO 874 356

Internal Revenue Service
District Director

Department of the Treasury

Date: January 28, 1985

Toll-Free Number: 800-
424-1040
Direct Number (Not Toll-Free):
(215) 597-6293
Person to Contact at Direct Number:
F. Chmelko
Name of Taxpayer:

John G. Pinto
Rail Trac Assoc.
320 Howel Road
Malvern, PA 19355

We have received your inquiry of 1/24/85 in the Problem Resolution Office for special processing. We are working on it and will be in touch with you by 2/24/85. Meanwhile, please let us know if you change your address or telephone number.

If you have any questions before you hear from us again, please feel free to contact us. You can call us at the toll-free number shown above and ask for the Problem Resolution Office, or you can call us direct. The person whose name is given above will be able to help you at the direct number. Since there will be a long-distance charge to you if you call us direct from beyond the immediate dialing area of our office, you may prefer to write us at the address below. If you write, please include your telephone number, the hours you can be reached, and a copy of this letter.

Sincerely yours,

Problem Resolution Officer

Enclosure:
Copy of this letter

If you write us, please send your letter to:

Problem Resolution Office
Internal Revenue Service
Attention:

Internal Revenue Service

600 Arch Street
Philadelphia, PA 19106

Date: 1/11/85

Dear Mr. Pinto -

Please be advised
that on this date we -
① - PRP for 3/31/84
② - Cr. Trans of 775.98
from 6-30-84 to 9-30-84
③ Secured Copy (Poss Dup)
of 941/6-30-84.

Mr Pinto was in Office
on 1/11/85.

Sincerely -
E. Cohen

Form 5260 (6-74) [illegible] Department of the Treasury

Internal Revenue Service

11601 Roosevelt Blvd.
Philadelphia, PA 19255

23-2229055

941 - 3/84

Date 12 19-84

Dear Taxpayer:

We have received your inquiry dated 9-18-84. In response, in order for us to properly locate your payment please send us copies, front and back, of the cancelled checks for the tax period mentioned above.

We thank you for your cooperation.

A. Rodriguez
TE

Form **5260** (6-74)   Department of the Treasury

Internal Revenue Service

11601 Roosevelt Blvd.
Philadelphia, PA 19255

23-2229085
941- 3-31-84

Date 12-7-84

Dear Sir:

Balance due on Form 941 for 3-31-84 is $1,733.54. Payments of $1,632.72 and $2,084.95 have posted. Credit of $245.95 was applied from 1040 period 12-31-83. We are sorry to inconvenience you but need a copy of your cancelled check again both sides. Thank you for your Cooperation and Patience.

E. Vinitsky
Tax Examiner
1-215-969-2601

Form **5260** (6-74)

Department of the Treasury

Information To Trace Payment

PAID TO BANK	If You Paid By Federal Tax Deposit	Amount $	Date of Deposit	Tax Period	Kind of Tax
		Name and Address of Bank Where Deposit Was Made			
		If You Corrected Your Name or Taxpayer Identifying Number on Your Federal Tax Deposit Form, Please Show The Correction Here			
PAID TO IRS	If You Paid By Check	Amount $ 1835.47	Date of Payment 3-13-84	If Check Has Cleared Your Bank, Please Fill In Blocks Ⓐ, Ⓑ, and Ⓒ →	Ⓐ Number Stamped on Check By IRS 22290858403052684
		Ⓑ Date Endorsed By IRS 3-26-84	Ⓒ Location of IRS Office That Endorsed Check Phila, PA (copy enclosed).		
	If You Paid By Money Order	Amount $	Date of Purchase	(Check One) ☐ U.S. Postal ☐ Other (Explain)	penalty + interest should not apply.
		Number on Money Order Receipt	Issuing Station (Name and Address)		
	If You Paid Cash	Amount $	Date on Cashier's Receipt	Number of Receipt	

Form 4428 (Rev. 12-83)

Internal Revenue Service Department of the Treasury

Internal Revenue Service Center
Mid-Atlantic Region
Philadelphia, Pa
~~11601 Roosevelt Blvd~~., Phila., Pa. 19155

October 29, 1984

Dear Taxpayer:

We recently sent you a notification of non-receipt of your Employers Quarterly Federal Tax Return, Form 941, for the period ending June 30, 1984. This is to advise you we have received the aforementioned return. No further action with respect to filing this return is necessary.

Please accept our apologies for any inconvenience this may have caused you.

Sincerely yours,

Chief, Collection Branch

007383

Department of the Treasury
Internal Revenue Service

Date of This Notice
10-12-84
Taxpayer Identifying Number
23-2229085 OL
Document Locator Number
28141-101-61911-4
01-8403

If you inquire about your account, please refer to these numbers or attach this letter

503 828 2301

JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

We have previously written you asking for payment of the Federal tax identified below, but we have no record of receiving it. The tax is overdue and the law authorizes us to file a notice of Federal tax lien and seize your property, wages, or other assets to satisfy your unpaid tax. The total amount due includes interest and penalty and should be paid immediately to avoid additional charges.

Make your check or money order payable to the Internal Revenue Service, show your taxpayer identifying number (social security or employer identification number) on it, and send it to us with this letter to assure prompt and accurate credit. An envelope is enclosed for your convenience. The copy of this letter is for your records. If the total amount due as shown below is incorrect because of a recent payment or other adjustment, please send any balance due, and explain the difference on the back of this letter.

If you cannot send full payment or if you want to apply for installment payments, write or telephone us immediately. A prompt response is necessary to avoid enforced collection action.

Enclosures:
Envelope
Copy of this letter
Telephone Number Notice

Tax Form Number	941
Tax Period Ended	03-31-84

Balance of Prior Assessment $	1,733.54
Late Payment Penalty	29.33
Interest.	63.68
Total Amount Due . . . . . . $	1,826.55

Reply to: INTERNAL REVENUE SERVICE
PHILADELPHIA, PA 19255

Department of the Treasury
Internal Revenue Service

PHILADELPHIA, PA 19255

In reply refer to: 28543248
SEP. 21, 1984 LTR 96C
23-2229085

00434

JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

Employer Identification Number: 23-2229085
Tax Period Ended: Mar. 31, 1984

Dear Taxpayer:

We received your letter, dated Sept 18,1984, about your Form 941 for the tax period shown above. We are looking into the matter and will answer you more fully as soon as possible.

If you have any questions about this letter, please write to us at the address shown on this letter. If you prefer you may call the IRS telephone number listed in your local directory. An IRS employee there will be able to help you, but the office at the address shown on this letter is most familiar with your case.

If you write to us with questions about this letter, please provide your telephone number and the most convenient time for us to call so we can contact you if we need additional information. Please attach this letter to any correspondence to help us identify your case. Keep the copy for your records.

Thank you for your patience.

Sincerely yours,

Chief, Taxpayer Assistance Section

Enclosure:
Copy of this letter

RAIL TRAC ASSOCIATES
320 HOWELL ROAD, MALVERN, PA. 19355

(215) 935-8221
Property Consultant Service

September 15, 1984

Chief, Taxpayer Assistance Section
IRS Service Center
Philadelphia, PA 19255

RE: Emp. # 23-2229085
Docu. Loc. # 28222-114-49207-4

Dear Sir:

Enclosed is copy of your notice dated Sept. 3, 1984. Its receipt leaves me perplexed and upset at the time consumption this matter requires. According to my records and previous notices from your office, our firm has no unpaid tax liability for the tax period ending March 31, 1984. I enclose copies of all previous correspondence on this.

It also appears that you took the liberty of appling an overpayment on my personal tax to the alleged deficiency in my business.

I respectfully request you review the enclosures and your records and kindly correct the errors or advise of the basis for the most recent notice.

Yours truly,

J.G. Pinto

Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

128
JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

If you have any questions, refer to this information:
Date of this Notice: SEP. 3, 1984
Taxpayer Identifying Number: 23-2229085
Document Locator Number: 28222-114-49207-4
Form 941 Tax Period: MAR. 31, 1984

Call: 574-9900 LOCAL PHILADELPHIA
1-800-424-1040 OTHER EASTERN PA
or
Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice and include your telephone number and the best time for us to call so we can contact you if we need more information.

REQUEST FOR PAYMENT

We recently notified you that we applied all or part of the amount you overpaid on other Federal taxes to the amount you owe for the form and tax period identified above. The amount you still owe is shown below with interest figured to the date of this notice. If you believe it is not correct, please see the information on the back of this notice.

*Amount remaining after applying your overpaid tax $	1,733.54
**Plus: Penalty for late payment	21.39
Interest on late payment	44.88
Amount you still owe $	1,799.81

SEP. 10, 1984

Make your check or money order payable to the Internal Revenue Service. Please write your taxpayer identifying number on your payment and mail it with the bottom part of this notice.

* This amount includes any penalty and interest you owed before the overpaid tax was applied.

** See Codes 07-09 on the back for any explanation of penalty and interest charges.

If you have any questions, you may call or write us. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

Form 6238 (Rev. 7-84)

Send this part with your payment or inquiry. Please correct any errors in your name, address, or taxpayer identifying number.

Your Telephone Number ( )

Best Time To Call

JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

Date of This Notice: SEP. 3, 1984
Taxpayer Identifying Number: 23-2229085
Document Locator Number: 28222-114-49207-4
Form 941 Tax Period: MAR. 31, 1984

232229085 0L PINT 01 2 8403 670 000001799B1

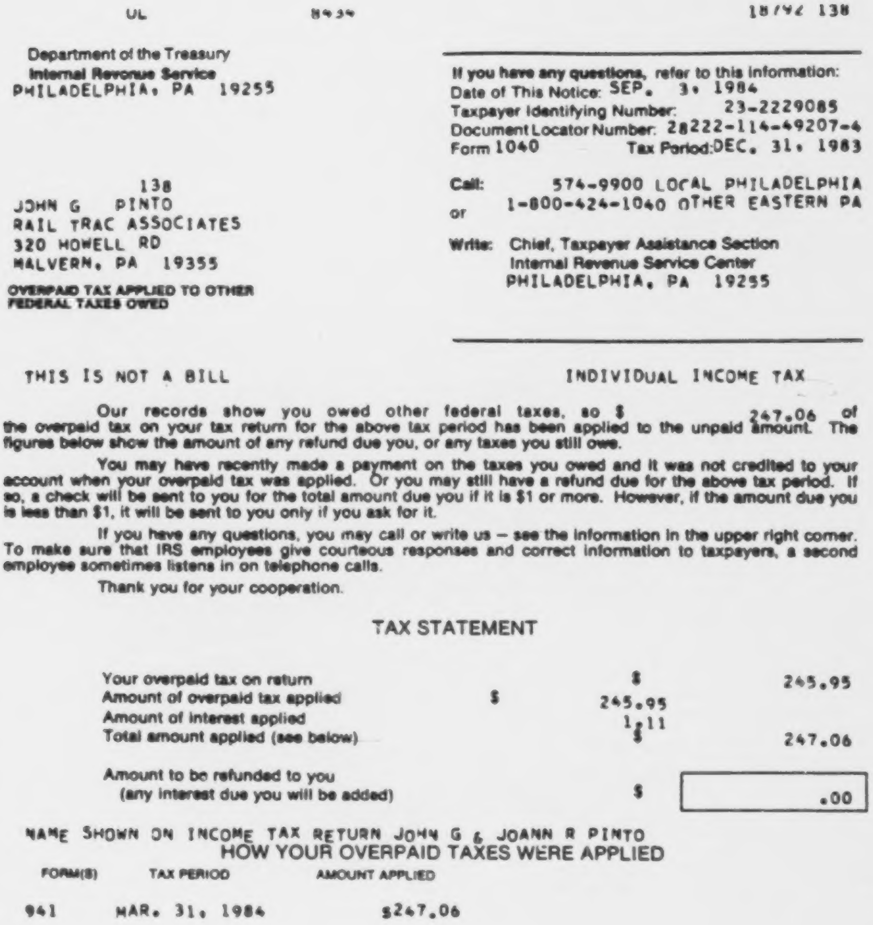
128 8435 07-09

Internal Revenue Service
PHILADELPHIA, PA 19255

Amount You Owe $ 1,799.81

Subtract Payments We Haven't Included

Pay Adjusted Amount Due $



UL 8434 18/92 138

Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

138
JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

OVERPAID TAX APPLIED TO OTHER FEDERAL TAXES OWED

If you have any questions, refer to this information:
Date of This Notice: SEP. 3, 1984
Taxpayer Identifying Number: 23-2229085
Document Locator Number: 28222-114-49207-4
Form 1040 Tax Period: DEC. 31, 1983

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

THIS IS NOT A BILL

INDIVIDUAL INCOME TAX

Our records show you owed other federal taxes, so $ 247.06 of the overpaid tax on your tax return for the above tax period has been applied to the unpaid amount. The figures below show the amount of any refund due you, or any taxes you still owe.

You may have recently made a payment on the taxes you owed and it was not credited to your account when your overpaid tax was applied. Or you may still have a refund due for the above tax period. If so, a check will be sent to you for the total amount due you if it is $1 or more. However, if the amount due you is less than $1, it will be sent to you only if you ask for it.

If you have any questions, you may call or write us – see the information in the upper right corner. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

Thank you for your cooperation.

TAX STATEMENT

Your overpaid tax on return		$	245.95
Amount of overpaid tax applied	$	245.95	
Amount of interest applied		1.11	
Total amount applied (see below)		$	247.06
Amount to be refunded to you (any interest due you will be added)		$	.00

NAME SHOWN ON INCOME TAX RETURN JOHN G & JOANN R PINTO

HOW YOUR OVERPAID TAXES WERE APPLIED

FORM(S)	TAX PERIOD	AMOUNT APPLIED
941	MAR. 31, 1984	$247.06

Internal Revenue Service

11601 Roosevelt Blvd.
Philadelphia, PA 19255

23-2229085

Date
8/7/84

Dear Taxpayer

We located your payment for the amount $1,835.47. We have credited this amount to your form 941 for the period Mar. 31, 1984. We are sorry for any inconvenience we caused you. Thank you for your cooperation

Yvette Santiago
Tax/Examiner

Form **5260** (6-74) ☆GPO:1983-705-008/5003 2-1 Department of the Treasury

Department of the Treasury
Internal Revenue Service

PHILADELPHIA, PA 19255

In reply refer to: 28712464
JUNE 19, 1984 LTR 96C
23-2229085
00224

JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

Employer Identification Number: 23-2229085
Tax Period Ended: Mar. 31, 1984

Dear Taxpayer:

We received your letter, dated June 13, 1984, about your Form 941 for the tax period shown above. We are looking into the matter and will answer you more fully as soon as possible.

If you have any questions about this letter, please write to us at the address shown on this letter. If you prefer you may call the IRS telephone number listed in your local directory. An IRS employee there will be able to help you, but the office at the address shown on this letter is most familiar with your case.

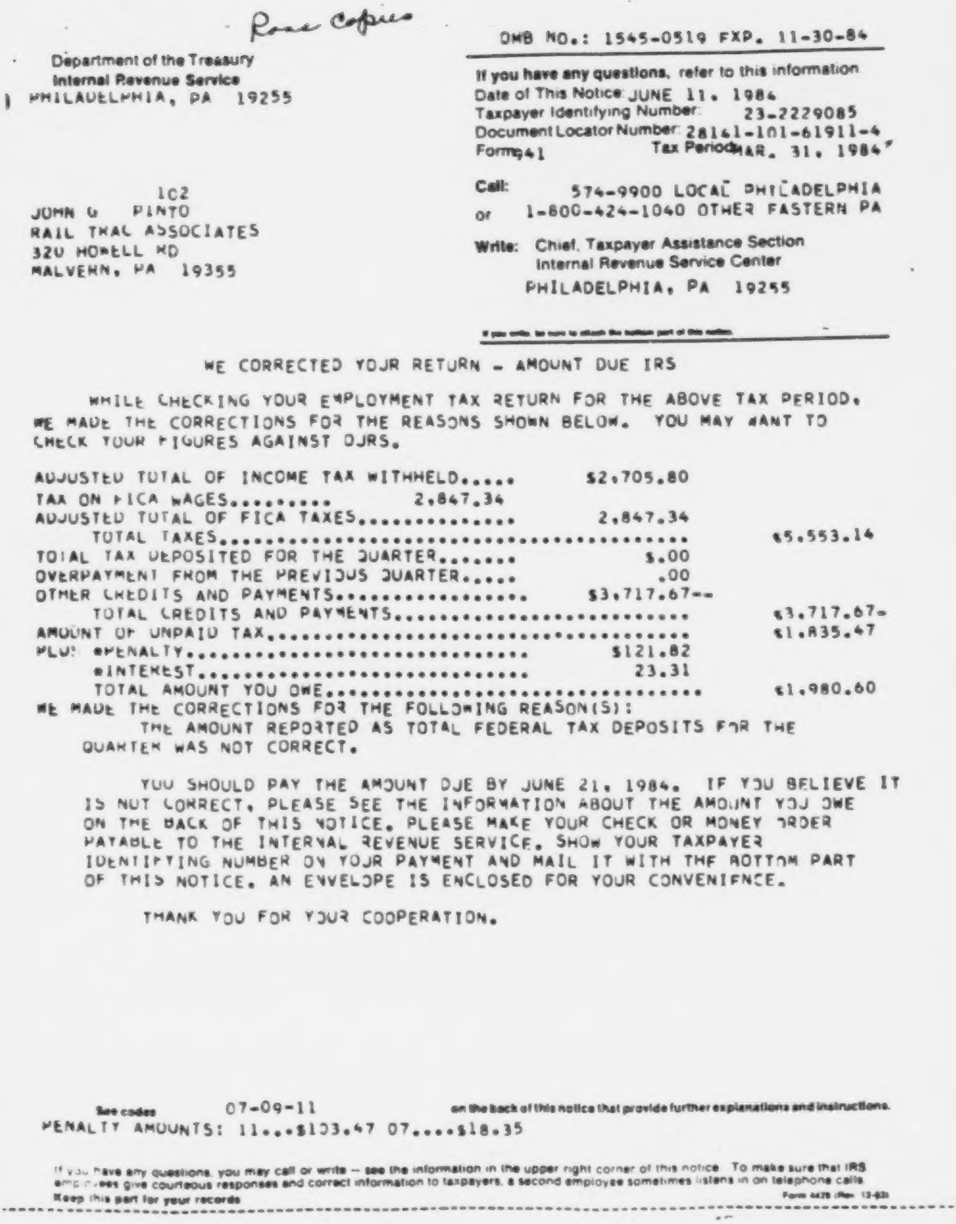
If you write to us with questions about this letter, please provide your telephone number and the most convenient time for us to call so we can contact you if we need additional information. Please attach this letter to any correspondence to help us identify your case. Keep the copy for your records.

Thank you for your patience.

Sincerely yours,

Chief, Taxpayer Assistance Section

Enclosure:
Copy of this letter



Rose Copies

Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

OMB NO.: 1545-0519 EXP. 11-30-84

If you have any questions, refer to this information
Date of This Notice: JUNE 11, 1984
Taxpayer Identifying Number: 23-2229085
Document Locator Number: 28141-101-61911-4
Form 941 Tax Period: MAR. 31, 1984

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice.

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JOHN G PINTO
RAIL TRAC ASSOCIATES
320 HOWELL RD
MALVERN, PA 19355

WE CORRECTED YOUR RETURN - AMOUNT DUE IRS

WHILE CHECKING YOUR EMPLOYMENT TAX RETURN FOR THE ABOVE TAX PERIOD, WE MADE THE CORRECTIONS FOR THE REASONS SHOWN BELOW. YOU MAY WANT TO CHECK YOUR FIGURES AGAINST OURS.

ADJUSTED TOTAL OF INCOME TAX WITHHELD.....		$2,705.80	
TAX ON FICA WAGES.........	2,847.34		
ADJUSTED TOTAL OF FICA TAXES...............		2,847.34	
TOTAL TAXES..			$5,553.14
TOTAL TAX DEPOSITED FOR THE QUARTER.......		$.00	
OVERPAYMENT FROM THE PREVIOUS QUARTER.....		.00	
OTHER CREDITS AND PAYMENTS..................		$3,717.67--	
TOTAL CREDITS AND PAYMENTS...........................			$3,717.67-
AMOUNT OF UNPAID TAX..			$1,835.47
PLUS *PENALTY...............................		$121.82	
*INTEREST...............................		23.31	
TOTAL AMOUNT YOU OWE..			$1,980.60

WE MADE THE CORRECTIONS FOR THE FOLLOWING REASON(S):

THE AMOUNT REPORTED AS TOTAL FEDERAL TAX DEPOSITS FOR THE QUARTER WAS NOT CORRECT.

YOU SHOULD PAY THE AMOUNT DUE BY JUNE 21, 1984. IF YOU BELIEVE IT IS NOT CORRECT, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE ON THE BACK OF THIS NOTICE. PLEASE MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

THANK YOU FOR YOUR COOPERATION.

See codes 07-09-11 on the back of this notice that provide further explanations and instructions.
PENALTY AMOUNTS: 11...$103.47 07....$18.35

If you have any questions, you may call or write — see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.
Keep this part for your records

Form 4428 (Rev. 12-83)

RECIPIENT PLEASE WRITE REPLY AT BOTTOM • DETACH STUB • RETAIN WHITE COPY • RETURN PINK COPY TO SENDER

To Chief Taxpayer Assistance
Internal Revenue Service
Phila PA 19255

From
NOLL & COMPANY, INC.
Public Accountants
18 EAST LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
Phone: (215) 644-3750

MESSAGE

SUBJECT Carl Toenmeier 029-10-5910 DATE Jan 18, 1985
DLN 28212-166-94411-4

Dear Sirs,

A letter dated August 27, 1984 was received from you stating the above was to receive a refund in the amount of $563.84. We responded on Sept 4, 1984 - a copy of which is attached, and explains the situation.

To date we have not heard from you what the status is. Please let Mr Toenmeier know so he does not get penalized.

Thank you very much

Sincerely

SIGNED Sharon

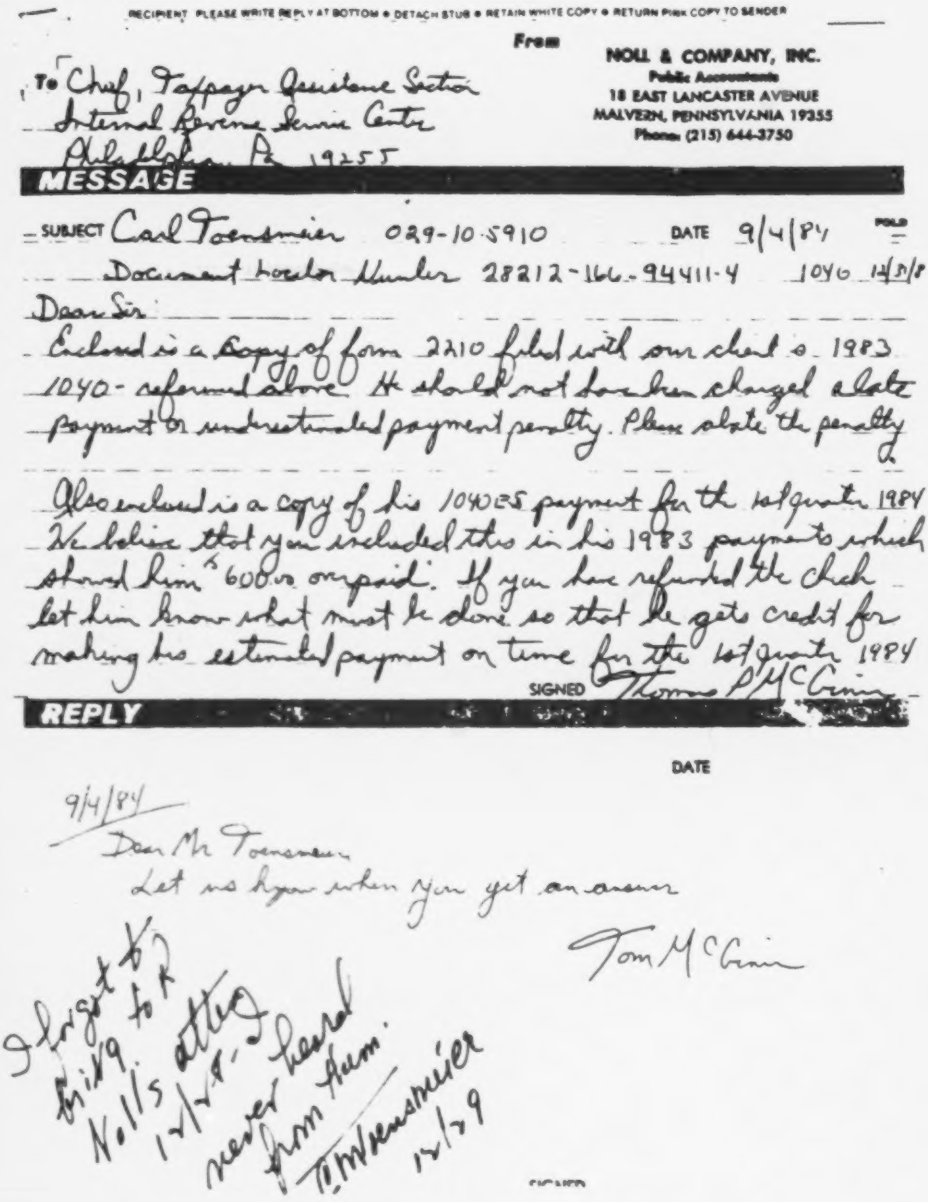
REPLY

cc: Mr Carl Toenmeier

DATE

Mr Toenmeier
We will try again to find out what the status is again. Let us know if you hear anything

No wrrdas
7 2/20/85
Clint



RECIPIENT: PLEASE WRITE REPLY AT BOTTOM • DETACH STUB • RETAIN WHITE COPY • RETURN PINK COPY TO SENDER

From

NOLL & COMPANY, INC.
Public Accountants
18 EAST LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
Phone: (215) 644-3750

To Chief, Taxpayer Assistance Section
Internal Revenue Service Center
Philadelphia, Pa 19255

MESSAGE

SUBJECT Carl Toensmeier 029-10-5910 DATE 9/4/84

FOLD

Document Locator Number 28212-166-94411-4 1040 12/31/8

Dear Sir:

Enclosed is a copy of form 2210 filed with our client's 1983 1040 - referenced above. He should not have been charged a late payment or underestimated payment penalty. Please abate the penalty.

Also enclosed is a copy of his 1040ES payment for the 1st quarter 1984. We believe that you included this in his 1983 payments which showed him $600.00 overpaid. If you have refunded the check let him know what must be done so that he gets credit for making his estimated payment on time for the 1st quarter 1984

SIGNED Thomas P McGinn

REPLY

DATE

9/4/84

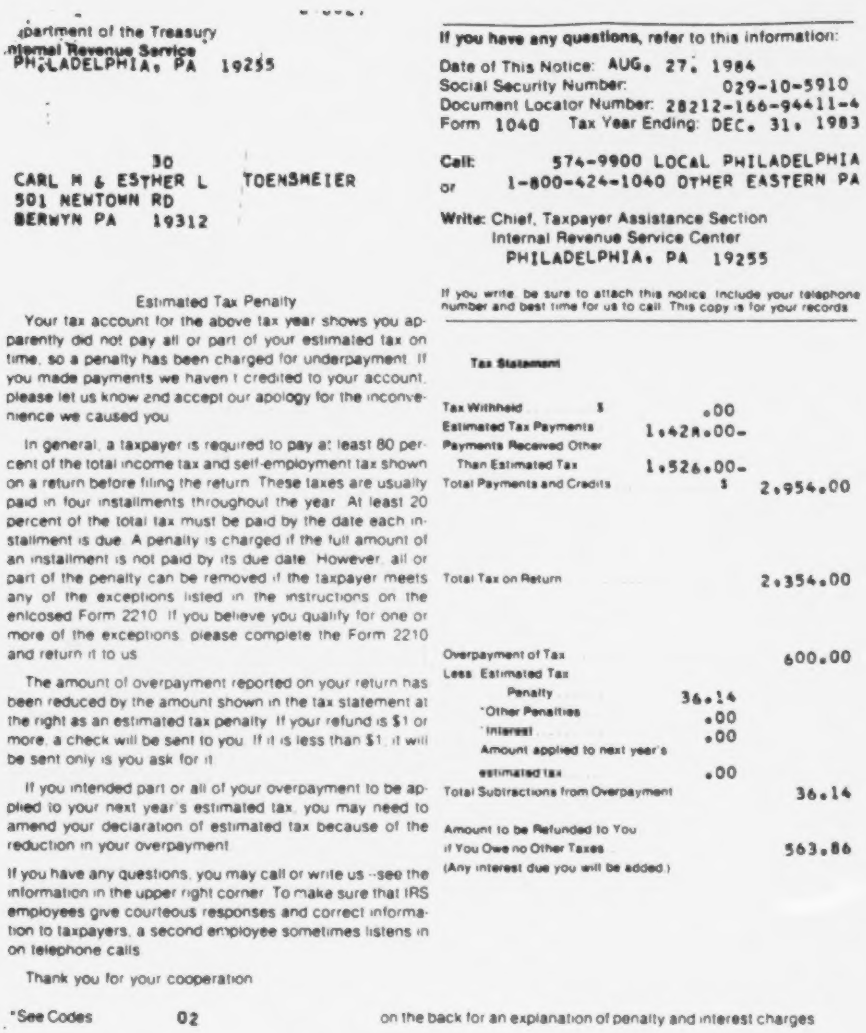
Dear Mr Toensmeier

Let us know when you get an answer

Tom McGinn

I forgot to
give this to R
Noll's atty
12/1/8- I
never heard
from them.
[illegible] Toensmeier
12/79

SIGNED



Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

30
CARL H & ESTHER L TOENSMEIER
501 NEWTOWN RD
BERWYN PA 19312

If you have any questions, refer to this information:

Date of This Notice: AUG. 27, 1984
Social Security Number: 029-10-5910
Document Locator Number: 28212-166-94411-4
Form 1040 Tax Year Ending: DEC. 31, 1983

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach this notice. Include your telephone number and best time for us to call. This copy is for your records.

Estimated Tax Penalty

Your tax account for the above tax year shows you apparently did not pay all or part of your estimated tax on time, so a penalty has been charged for underpayment. If you made payments we haven't credited to your account, please let us know and accept our apology for the inconvenience we caused you.

In general, a taxpayer is required to pay at least 80 percent of the total income tax and self-employment tax shown on a return before filing the return. These taxes are usually paid in four installments throughout the year. At least 20 percent of the total tax must be paid by the date each installment is due. A penalty is charged if the full amount of an installment is not paid by its due date. However, all or part of the penalty can be removed if the taxpayer meets any of the exceptions listed in the instructions on the enclosed Form 2210. If you believe you qualify for one or more of the exceptions, please complete the Form 2210 and return it to us.

The amount of overpayment reported on your return has been reduced by the amount shown in the tax statement at the right as an estimated tax penalty. If your refund is $1 or more, a check will be sent to you. If it is less than $1, it will be sent only is you ask for it.

If you intended part or all of your overpayment to be applied to your next year's estimated tax, you may need to amend your declaration of estimated tax because of the reduction in your overpayment.

If you have any questions, you may call or write us --see the information in the upper right corner. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

Thank you for your cooperation.

Tax Statement

Tax Withheld $	.00	
Estimated Tax Payments	1,428.00-	
Payments Received Other Than Estimated Tax	1,526.00-	
Total Payments and Credits	$	2,954.00
Total Tax on Return		2,354.00
Overpayment of Tax		600.00
Less: Estimated Tax Penalty	36.14	
*Other Penalties	.00	
*Interest	.00	
Amount applied to next year's estimated tax	.00	
Total Subtractions from Overpayment		36.14
Amount to be Refunded to You if You Owe no Other Taxes (Any interest due you will be added.)		563.86

*See Codes 02 on the back for an explanation of penalty and interest charges

Department of the Treasury
Internal Revenue Service

PHILADELPHIA, PA 19255

OMB Clearance No.: 1545-0074

In reply refer to: 28203461
AUG. 20, 1984 LTR 12P
207-26-3420
01160

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Social Security Number: 207-26-3420
778-00187

Dear Taxpayer:

In processing your Federal income tax return for the year ended Dec.31, 1983, we find we need more information or do not have the fully completed forms that are required. Please send us the information indicated or fill out the forms listed below and send them to us. Attach this letter to your reply to help us accurately review your return.

Schedule C to support the entry of $2,411.00 on line 12.

When your tax is at least $1, you may request that $1 go to the Presidential Election Campaign Fund. When you file a joint return reporting tax of $2 or more, you may request that $1 or $2 go to the fund. This does not change your tax or your refund. You did not indicate on your return that you want any of your tax to go to the fund. If you like, you can do so now by checking the appropriate space.

( ) $1 for the Presidential Election Campaign Fund

( ) $2 for the Presidential Election Campaign Fund

Please send us this letter with the information requested within 20 days so we can complete the processing of your return. Please enclose only the information requested and do not send a copy of your return. It will take about 6 to 8 weeks from the time we receive your response to complete the processing of your return and issue any refund due you. If we do not hear from you we will have to process your return using the information we have. This may increase the tax you owe or reduce your refund because we would not be able to give you proper credit. In the future, please provide all required information with your return at the time it is filed. This will eliminate delays in the processing of your return due to missing information which is required to process your return.

If the item in question appeared in error on your return, please note that on this letter when you reply. Do not file a corrected return because that will delay the processing of your original return. In the event we need to contact you for further information, please provide us with your telephone number and best time to call you.

28203461
AUG. 20, 1984 LTR 12P
207-26-3420
01161

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Telephone Number ______________________ Hour(s) ______________

We have enclosed an envelope for your convenience. The copy of this letter is for your records. Please return the original of this letter with your reply. Thank you for your cooperation.

Sincerely yours,

Chief, Taxpayer Assistance Section

Enclosures:
Copy of this letter
Envelope
28222-108-47617-4
2- SCHD C

L & COMPANY, INC.

PUBLIC ACCOUNTANTS

15 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3786

November 16, 1984

Internal Revenue Service
Phila., Pa. 19255

RE: Louis & June De Shullo
# 207-26-3420
Doc. Locator #: 28222-108-47617-4
1983-1040

Dear Sirs:

Please be advised that we do not agree with the attached notice dated November 5, 1984, showing an amount due on the above tax year.

The form states no Schedule A was attached to the original 1040. Therefore, we are attaching another copy of the Schedule A (as filed originally) to this letter.

Using the Schedule A attached hereto, there will be no tax due nor interest required on the above tax year.

Please correct your records to include this Schedule A and to show no tax or interest due. Thank you for your prompt attention.

Very Truly Yours,
L Smith
P.L. Smith

Encl.

cc: DeShullo

PS:lm

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE ROUTE 401 & SWEDESFORD ROAD MALVERN, PA 19355

7263420 TC 30 8312 670 8443 2301 A E [illegible]
841105

Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

11
LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN PA 19061

If you have any questions, refer to this information

Date of This Notice NOV. 5, 1954
Social Security Number 207-26-3420
Document Locator Number 28222-108-47617-4
Form 1040 Tax Year Ended DEC. 31, 1983

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice. Include your telephone number and the best time to call.

Correction Notice —
Amount Due IRS

As a result of an error we corrected on your tax return, you owe IRS $ 478.45. If you believe this amount is not correct, please see the back of this notice. Make your check or money order payable to the Internal Revenue Service. Please write your social security number on your payment and mail it with the bottom part of this notice. An envelope is enclosed for your convenience.

Allow for enough mailing time to be sure that we receive your payment by NOV. 15, 1984

Thank you for your cooperation

Correction Explanation

WE REFIGURED YOUR TAX WITHOUT ITEMIZED DEDUCTIONS BECAUSE YOUR SCHEDULE FOR ITEMIZED DEDUCTIONS WAS EITHER INCOMPLETE OR NOT ATTACHED TO YOUR RETURN.

Tax Statement

Total Tax on Return	$ 5,192.00	
Corrected Balance of Tax on Return		$ 5,642.00
Tax Withheld	4,833.00-	
*Estimated Tax Payments	.00	
Other Credits	.00	
Other Payments	359.00-	
Total Payments and Credits		5,192.00-
UNDERPAID TAX..........		450.00
**Penalty		.00
**Interest		28.45
Amount You Owe		$ 478.45
Subtract Payments We Haven't Included		
Pay Adjusted Amount Due		$

* **Estimated Tax Filers —** Please check to see if you should file an amended declaration of estimated tax because your tax was refigured.

** **See Codes** 09 on the back for an explanation of penalty and interest charges.

If you have any questions, you may call or write us — see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

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 JLE A (FORM 1040)        ITEMIZED DEDUCTIONS                      1983 * 07
                                                              OMB NO. 1545-0074
.IS AND JUNE DESMULLO                                  SSN: 207-26-3420
** MEDICAL AND DENTAL EXPENSES (I.E. NOT PAID BY OTHERS/REIMBURSED)******
  MEDICINES AND DRUGS........1         126.
  WRITE 1% OF 1040 LN 33.....2         349.
  LN 1 MINUS LN 2. IF 2>1 PUT ZERO ........3
  OTHER MEDICAL AND DENTAL EXPENSES
a DOCTORS, DENTISTS, NURSES, INSURANCE....4A       1,836.
b TRANSPORTATION.........................4b
c OTHER (HEARING AIDS, DENTURES, GLASSES)...

                                         4c
 ADD LINES 3 THRU 4C.....................5        1,836.
  MULT AMOUNT ON FORM 1040 LINE 33 BY .05..6      1,746.
  SUBTRACT LN 6 FROM 5 IF LN6> LN5 THEN ENTER 0..........7          90.
**** TAXES ****************************************************************
  STATE AND LOCAL INCOME ..................8        879.
  REAL ESTATE .............................9        947.
0 a GENERAL SALES (SEE SALES TAX TABLES).10a        277.
  b GENERAL SALES ON MOTOR VEHICLES......10b
1 OTHER (LIST-INCLUDE PERSONAL PROPERTY.....
                                        11
2 ADD LINES 8 THRU 11 WRITE ANSWER HERE ................12        2,103.
** INTEREST EXPENSE ********************************************************
3 a HOME MORTGAGE INTEREST PAID ..........13a        135.
  b MORTGAGE INTEREST PAID TO INDIVIDUAL....

                                         13b
4 CREDIT CARDS AND CHARGE ACCOUNTS .......14        401.
5 OTHER(LIST)
a Schedule                         1,256.

                                         15      1,256.
6 ADD LINES 13a THRU 15 ...............................16        1,792.
** CONTRIBUTIONS ***********************************************************
7a  CASH CONTRIBUTIONS ...................17a        640.
 b  CASH TOTALING $3000 OR MORE
    ONE ORGANIZATION(SHOW WHOM & AMT)


8 OTHER THAN CASH(ATTACH STATEMENT) ......18
9 CARRYOVER FROM PRIOR YEAR ..............19
0 ADD LINES 17a THRU 19 ...............................20          640.
**  CASUALTY AND THEFT LOSSES **********************************************
1 TOTAL CASUALTY OR THEFT LOSS(ES).....................21
**  MISCELLANEOUS DEDUCTIONS ***********************************************
2 UNION AND PROFESSIONAL DUES.............22         40.
3 TAX RETURN PREPARATION FEE .............23
4 OTHER (LIST) 24
a Schedule                           240.
                                                     240.
5 ADD LINES 22 THRU 24 ................................25          280.
** SUMMARY OF ITEMIZED DEDUCTIONS ******************************************
6 ADD LINES 7, 12, 16, 20, 21, AND 25..................26        4,905.
7 FILING STATUS [illegible] THIS AMT, CHECK FORM 1040, FILING STATUS BOX       3,400.
8 SUBTRACT LN 27 FROM 26 PUT ANSWER ON LN 34A OF 1040
  [illegible] IF 27 > 26 SEE INSTRUCTIONS...........................28        1,505.
```

OLL & COMPANY, INC.

PUBLIC ACCOUNTANTS

16 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3750

January 10, 1985

Internal Revenue Service
Phila., Pa. 19255

RE: Louis & June DeShullo
# 207-26-3420
DLN # 28222-108-47617-4
1983-1040

Dear Sirs:

Please be advised that we do not agree with the attached notice dated December 28, 1984, stating that an amount continues to be due for the above tax year.

In response to a prior notice, dated November 5, 1984, a Schedule A WAS resubmitted showing that NO tax nor the required interest was due.

We are attaching a THIRD copy of the original Schedule A and, again are asking you to please correct your records to include this Schedule A.

Your prompt attention would be greatly appreciated.

Very Truly Yours,

S.L. Bracher

Encl.

cc: L. DeShullo

SLB:lm

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE: ROUTE 401 & SWEDESFORD ROAD, MALVERN, PA 19355

000826

828 2301

Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

If you have any questions, refer to this information.
Date of This Notice: 12-28-84 503 8454
Taxpayer Identifying Number: 207-26-3420 TC

Form	Tax Year Ended	Document Locator Number
1040	12-31-83	28272-108-47617-4

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EAST PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice.

WE HAVE PREVIOUSLY WRITTEN YOU ASKING FOR PAYMENT OF THE FEDERAL TAX IDENTIFIED BELOW, BUT WE HAVE NO RECORD OF RECEIVING IT. THE TAX IS OVERDUE AND THE LAW AUTHORIZES US TO FILE A NOTICE OF FEDERAL TAX LIEN AND SEIZE YOUR PROPERTY, WAGES, OR OTHER ASSETS TO SATISFY YOUR UNPAID TAX. THE TOTAL AMOUNT DUE INCLUDES INTEREST AND PENALTY AND SHOULD BE PAID IMMEDIATELY TO AVOID ADDITIONAL CHARGES.

MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER (SOCIAL SECURITY OR EMPLOYER IDENTIFICATION NUMBER) ON IT, AND SEND IT TO US WITH THE BOTTOM PART OF THIS NOTICE TO ASSURE PROMPT AND ACCURATE CREDIT. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. IF THE TOTAL AMOUNT DUE AS SHOWN BELOW IS INCORRECT BECAUSE OF A RECENT PAYMENT OR OTHER ADJUSTMENT, PLEASE SEND ANY BALANCE DUE, AND ATTACH AN EXPLANATION OF THE DIFFERENCE.

IF YOU CANNOT SEND FULL PAYMENT, WRITE OR TELEPHONE US IMMEDIATELY. A PROMPT RESPONSE IS NECESSARY TO AVOID ENFORCED COLLECTION ACTION.

TAX FORM NUMBER	1040
TAX PERIOD ENDED	12-31-83
BALANCE OF PRIOR ASSESSMENTS	$478.45
LATE PAYMENT PENALTY	$4.50
INTEREST	$8.12
TOTAL AMOUNT DUE	$491.07

ENCLOSURES:
ENVELOPE

If you have any questions, you may call or write — see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

See back of this notice for more information.
Keep this part for your records.

(DETACH HERE)

Send this part with your payment or inquiry. Please correct any errors in your name, address, or taxpayer identifying number.

000826

828 2301

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Date of This Notice: 12-28-84 503 8454
Taxpayer Identifying Number: 207-26-3420 TC

Form	Tax Year Ended	Document Locator Number
1040	30 8312	28272-108-47617-4

207263420 TC DESH 30 0 8312 670 00000049107

Amount You Owe $491.07
Subtract Payments We Haven't Included ....
Pay Adjusted Amount .... $

Internal Revenue Service
PHILADELPHIA, PA 19255

ed IRS

2/8/85

Spoke to Mrs Speakman in Collections and she informed me that the credit had been put in computer. Per RN am sending out additional correspondence anyway to cover ourselves

SB

001170 828 2301

epartment of the Treasury
Internal Revenue Service P 903 806 283

If you have any questions, refer to this information:
Date of This Notice 01-25-85 504 8506
Taxpayer Identifying Number 207-26-3420 TC

Form	Tax Year Ended	Document Locator Number
1040	12-31-83	28222-108-47617-4

Past Due
Final Notice (Notice of Intention to Levy)
Read Carefully

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EAST PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice.

ALTHOUGH NOTICES AND DEMAND HAVE BEEN MADE FOR PAYMENT OF YOUR FEDERAL TAX LIABILITY SHOWN BELOW, WE HAVE NO RECORD OF RECEIVING THE AMOUNT DUE. THIS IS YOUR FINAL NOTICE BEFORE WE PROCEED WITH ENFORCEMENT ACTION. THE PURPOSE OF THIS NOTICE IS TO INFORM YOU OF OUR INTENTION TO LEVY UPON YOUR PROPERTY OR RIGHTS TO PROPERTY IN ACCORDANCE WITH SECTION 6331 OF THE INTERNAL REVENUE CODE.

TO PREVENT SUCH ACTION, SEND US, WITHIN 10 DAYS FROM THE DATE OF THIS NOTICE, YOUR CHECK OR MONEY ORDER FOR THE TOTAL AMOUNT DUE, PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER (SOCIAL SECURITY OR EMPLOYER IDENTIFICATION NUMBER) ON IT AND ENCLOSE THE BOTTOM PART OF THIS NOTICE TO ASSURE PROMPT AND ACCURATE CREDIT. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

IF YOU HAVE RECENTLY PAID THE AMOUNT DUE BUT YOUR PAYMENT HAS NOT BEEN CREDITED TO YOUR ACCOUNT, OR IF YOU CANNOT PAY THIS AMOUNT IN FULL, CONTACT THE OFFICE SHOWN ABOVE WITHIN 10 DAYS FROM THE DATE OF THIS NOTICE. THE TELEPHONE NUMBER IS SHOWN ABOVE.

IF WE DO NOT RECEIVE YOUR PAYMENT OR IF YOU DO NOT CONTACT OUR OFFICE, ENFORCEMENT ACTION MAY BE TAKEN AT ANY TIME AFTER 10 DAYS FROM THE DATE OF THIS NOTICE WITHOUT ANY FURTHER NOTICE TO YOU. A NOTICE OF FEDERAL TAX LIEN MAY BE FILED WHICH CONSTITUTES PUBLIC NOTICE TO YOUR CREDITORS THAT A TAX LIEN EXISTS AGAINST YOUR PROPERTY. SALARY OR WAGES DUE YOU MAY BE LEVIED UPON, AS PROVIDED BY SECTION 6331 OF THE INTERNAL REVENUE CODE, BY SERVING A NOTICE OF LEVY ON YOUR EMPLOYER. BANK ACCOUNTS, RECEIVABLES, COMMISSIONS, OR OTHER KINDS OF INCOME YOU HAVE ARE ALSO SUBJECT TO LEVY. PROPERTY OR RIGHTS TO PROPERTY, SUCH AS AUTOMOBILES, MAY ALSO BE SEIZED AND SOLD TO SATISFY YOUR TAX LIABILITY.

TAX FORM NUMBER	1040
TAX PERIOD ENDED	12-31-83
BALANCE OF PRIOR ASSESSMENTS	$478.45
LATE PAYMENT PENALTY	$6.75
INTEREST	$13.00
TOTAL AMOUNT DUE	$498.20

ENCLOSURES
ENVELOPE

Reply within 10 days to avoid enforcement action and additional penalties.

If you have any questions, you may call or write – see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

See back of this notice for more information.
Keep this part for your records. ↓DETACH HERE↓ Form [illegible]

Send this part with your payment or inquiry. Please correct any errors in your name, address, or taxpayer identifying number.

001170 828 2301

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Date of This Notice: 01-25-85 504 8506
Taxpayer Identifying Number: 207-26-3420 TC

Form	Tax Year Ended	Document Locator Number
1040	30 8312	28222-108-47617-4

207263420 TC DESH 30 0 8312 670 00000049820

Internal Revenue Service
PHILADELPHIA, PA 19255

Amount You Owe $498.20
Subtract Payments We Haven't Included ....
Pay Adjusted Amount .... $

PUBLIC ACCOUNTANTS

10 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3700

February 1, 1985

Internal Revenue Service
Phila., Pa. 19255

RE: Louis & June DeShullo
# 207-26-3420
DLN# 28222-108-47617-4
1983-1040

Dear Sirs:

Please be advised that we do not agree with the attached notice dated January 25, 1985, stating that an amount continues to be due for the above tax year.

In response to two prior notices, dated November 5, 1984, and December 28, 1984, a Schedule A WAS resubmitted showing that NO tax nor the required interest was due.

We are attaching a FOURTH copy of the original Schedule A and, again, are asking you to please correct your records to include the Schedule A.

Your prompt attention and response would be greatly appreciated.

Very Truly Yours,

S.L. Bracher

Encl.(1)

cc: L. DeShullo
Congressman Schulze

SB:lm

1/c

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE: ROUTE 401 & SWEDESFORD ROAD, MALVERN, PA 19355

PUBLIC ACCOUNTANTS

16 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3700

February 1, 1985

Congressman Richard T. Schulze
2 E. Lancaster Ave.
Paoli, Pa. 19301

Dear Congressman Schulze,

Attached is a copy of our most recent correspondence with the Internal Revenue Service concerning Mr. & Mrs. L. DeShullo.

We would appreciate any inquiry that could be made on their behalf.

Very Truly Yours,

Sandy L. Bracher

Encl.

cc: L. DeShullo

SB:lm

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE: ROUTE 401 & SWEDESFORD ROAD, MALVERN, PA 19355

```
.DULE A (FORM 1040)          ITEMIZED DEDUCTIONS                      19[illegible] * 07
                                                                 OMB NO. 1545-0074
LOUIS AND JUNE DESHULLO                                   SSN: 297-2[illegible]-3420
***** MEDICAL AND DENTAL EXPENSES (I.E. NOT PAID BY OTHERS/REIMBURSED)******
1  MEDICINES AND DRUGS........1          126.
2  WRITE 1% OF 1040 LN 33.....2          349.
3  LN 1 MINUS LN 2. IF 2>1 PUT ZERO ........3
4  OTHER MEDICAL AND DENTAL EXPENSES
4a DOCTORS, DENTISTS, NURSES, INSURANCE....4a       1,836.
 b TRANSPORTATION..........................4b
 c OTHER (HEARING AIDS, DENTURES, GLASSES)...

                                          4c
5 ADD LINES 3 THRU 4C......................5        1,836.
6  MULT AMOUNT ON FORM 1040 LINE 33 BY .05..6       1,746.
7  SUBTRACT LN 6 FROM 5 IF LN6> LN5 THEN ENTER 0..........7              90.
****** TAXES ***************************************************************
8  STATE AND LOCAL INCOME .................8          879.
9  REAL ESTATE ............................9          947.
10 a GENERAL SALES (SEE SALES TAX TABLES).10a         277.
   b GENERAL SALES ON MOTOR VEHICLES......10b
11 OTHER (LIST-INCLUDE PERSONAL PROPERTY.....
                                          11
12 ADD LINES 8 THRU 11 WRITE ANSWER HERE ................12          2,10[illegible].
**** INTEREST EXPENSE ******************************************************
13 a HOME MORTGAGE INTEREST PAID ..........13a        135.
   b MORTGAGE INTEREST PAID TO INDIVIDUAL....

                                          13b
14 CREDIT CARDS AND CHARGE ACCOUNTS .......14         401.
15 OTHER(LIST)
See Schedule                        1,256.

                                          15        1,256.
16 ADD LINES 13a THRU 15 ..................................16         1,792.
**** CONTRIBUTIONS *********************************************************
17a  CASH CONTRIBUTIONS ...................17a         640.
  b  CASH TOTALING $3000 OR MORE
     ONE ORGANIZATION(SHOW WHOM & AMT)


18 OTHER THAN CASH(ATTACH STATEMENT) ......18
19 CARRYOVER FROM PRIOR YEAR ..............19
20 ADD LINES 17a THRU 19 ..................................20           640.
****  CASUALTY AND THEFT LOSSES ********************************************
21 TOTAL CASUALTY OR THEFT LOSS(ES).......................21
****  MISCELLANEOUS DEDUCTIONS *********************************************
22 UNION AND PROFESSIONAL DUES.............22          40.
23 TAX RETURN PREPARATION FEE .............23
24 OTHER (LIST)  24
See Schedule                        24[illegible].
                                                   24[illegible].
25 ADD LINES 22 THRU 24 ...................................25         [illegible].
**** SUMMARY OF ITEMIZED DEDUCTIONS ****************************************
26 ADD LINES 7, 12, 16, 20, 21, AND 25.....................26        4,[illegible].
27 FOR THIS AMT, CHECK FORM 1040, FILING STATUS BOX                  3,400.
28 SUBTRACT LN 27 FROM 26 PUT ANSWER ON LN 34A ON 1040
   ALSO, IF 27 > 26 SEE INSTRUCTIONS......................28        1,[illegible].
```

LOUIS and JUNE DESHULLO SSN: 207-26-3420

Description	Amount	
MARYLAND PROF.	392.	
BANK LOANS	864.	
TOTAL	1,256.	CARRIED TO Sch-A Interest
WORK TOOLS	240.	
TOTAL	240.	CARRIED TO Sch-A Misc.

001170 828 2301

Department of the Treasury
Internal Revenue Service P 903 806 283

If you have any questions, refer to this information
Date of This Notice: 01-25-85 504 8506
Taxpayer Identifying Number: 207-26-3420 TC

Form	Tax Year Ended	Document Locator Number
1040	12-31-83	28222-108-47617-4

Past Due
Final Notice (Notice of Intention to Levy)
Read Carefully

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EAST PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice.

ALTHOUGH NOTICES AND DEMAND HAVE BEEN MADE FOR PAYMENT OF YOUR FEDERAL TAX LIABILITY SHOWN BELOW, WE HAVE NO RECORD OF RECEIVING THE AMOUNT DUE. THIS IS YOUR FINAL NOTICE BEFORE WE PROCEED WITH ENFORCEMENT ACTION. THE PURPOSE OF THIS NOTICE IS TO INFORM YOU OF OUR INTENTION TO LEVY UPON YOUR PROPERTY OR RIGHTS TO PROPERTY IN ACCORDANCE WITH SECTION 6331 OF THE INTERNAL REVENUE CODE.

TO PREVENT SUCH ACTION, SEND US, WITHIN 10 DAYS FROM THE DATE OF THIS NOTICE, YOUR CHECK OR MONEY ORDER FOR THE TOTAL AMOUNT DUE, PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER (SOCIAL SECURITY OR EMPLOYER IDENTIFICATION NUMBER) ON IT AND ENCLOSE THE BOTTOM PART OF THIS NOTICE TO ASSURE PROMPT AND ACCURATE CREDIT. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

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TAX FORM NUMBER	1040
TAX PERIOD ENDED	12-31-83
BALANCE OF PRIOR ASSESSMENTS	$478.45
LATE PAYMENT PENALTY	$6.75
INTEREST	$13.00
TOTAL AMOUNT DUE	$498.20

ENCLOSURES
ENVELOPE

Reply within 10 days
to avoid enforcement action
and additional penalties.

If you have any questions, you may call or write – see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

See back of this notice for more information.
Keep this part for your records.

↓DETACH HERE↓

Form [illegible]

001170 828 2301

Send this part with your payment or inquiry. Please correct any errors in your name, address, or taxpayer identifying number.

LOUIS & JUNE DESHULLO
1064 FLORA LN
BOOTHWYN, PA 19061

Date of This Notice: 01-25-85 504 8506
Taxpayer Identifying Number: 207-26-3420 TC

Form	Tax Year Ended	Document Locator Number
1040	30 8312	28222-108-47617-4

207263420 TC DESH 30 0 8312 670 00000049820

Amount You Owe	$498.20
Subtract Payments We Haven't Included	
Pay Adjusted Amount	$

Internal Revenue Service
PHILADELPHIA, PA 19255

PUBLIC ACCOUNTANTS

18 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3780

January 16, 1985

Senator John Heinz
Room 9456
Federal Building
600 Arch Street
Philadelphia, Pa. 19106

RE: Modern Exterminating, Inc.
23-1999720

Dear Senator Heinz,

Attached is a copy of correspondence that we sent to the Internal Revenue Service for our client. As of today neither our client nor us have recieved an answer. We are requesting that you investigate this matter, since we are getting no where dealing with the Internal Revenue Service.

Thank you for your assistance.

Very Truly Yours,
Thomas P. McGinn
Thomas P. McGinn

Encl. (g)

cc: Modern Exterminating-J. Kerr
IRS-Ms. Joyce E. Rodriguez

TMG:lm

MEMBER NATIONAL ASSOCIATION OF PUBLIC ACCOUNTANTS
MEMBER PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS
BRANCH OFFICE. ROUTE 401 & SWEDESFORD ROAD, MALVERN, PA 19355

NOLL & COMPANY, INC.

PUBLIC ACCOUNTANTS

19 E. LANCASTER AVENUE
MALVERN, PENNSYLVANIA 19355
TELEPHONE (215) 644-3790

December 19, 1984

Internal Revenue Service
11601 Roosevelt Blvd.
Philadelphia, Pa. 19255
Attn: Ms. Joyce E. Rodriguez

RE: Modern Exterminating, Inc.
23-1999720 941 12/83

Dear Ms. Rodriguez,

We received your letter (copy attached) and reclaim form in regards to our client referred above. It seems quite evident that there is a total lack of communication within the Internal Revenue Service. Our refund claim was sent to your office on October 28, 1984. We paid the amount in question (for the second time) on October 26, 1984 with a certified check made out to the Internal Revenue Service and delivered to Mr. Linguetti in the West Chester, Pa., office of the IRS. I personally delived the check.

For the records, this payment was made on time on December 2, 1983. Due to a bank error the IRS applied the payment to 940 taxes and not 941. Our client had no idea this happened until late summer or early fall. We are not objecting to the interest charged, just the penalty since it was not our client's error.

We have been trying to get this settled since August 1984. It seems like there is absolutely no communication between the IRS and its main office in Philadelphia, its West Chester office and its Bensalem office. This lack of communication has cost our client alot of money on follow up and also a lot of wasted time. We have tried calling, we have tried writing, and we have even come into your offices. We can't think of any other approach. Let us know if there is a fourth way of communicating so that we can get this problem corrected.

Since it is an IRS created problem we feel that you should also abate the interest charged to our client.

Last, but not least, I'm sure that since you don't show that the payment was received on October 26, 1984, you probably added more interest and penalty charges. If that is correct, please abate then now so that our client doesn't have to spend more money correcting your errors.

Very Truly Yours,
Thomas P. McGinn/lm
Thomas P. McGinn

Encl.
cc: Modern Exterminating, Inc.-James Kerr
Congressman Robert W. Edgar
District Director, IRS-Phila., Pa.
Senator John Heinz
B. Adkins-Problem Resolution -Phila., Pa.
Mr. Linguetti, West Chester, IRS

TMG:lm

Form **843**
(Rev. June 1978)
Department of the Treasury
Internal Revenue Service

'96 C

Claim

If your claim is for an overpayment of income taxes, do NOT use this form (see instructions)

Please type or print

Name of taxpayer or purchaser of stamps: Mooran Exterminating and Termite Control Co., Inc.

Number and street: 2200 MacDade Blvd

City or town, State, and ZIP code: Holmes, PA 19043

Fill in applicable items—Use attachments if necessary

1 Your social security number:

2 Employer identification number: 23-1999730

3 Internal Revenue Service office where return (if any) was filed: Philadelphia

4 Name and address shown on return, if different from above:

5 Period—prepare separate form for each taxable period From , 19 , to , 19

6 Amount to be refunded or abated $ 234.79

7 Dates of payment: 10/26/84

8 Type of tax
☒ Employment ☐ Estate ☐ Excise ☐ Gift ☐ Stamp

9 Kind of return filed
☐ 706 ☐ 709 ☐ 720 ☐ 940 ☒ 941 ☐ 990-PF ☐ 4720 ☐ Other (specify) ▶

10 Explain why you believe this claim should be allowed and show computation of tax refund or abatement.

Payroll was Erroneously deposit with the IRS as A 940 deposit Should have been A 941 deposit. Copy of original check And Bank Advice of Credit Attached. When the 940 Appeared To be overpaid Money was Returned. We Agree To pay Interest but Feel we shouldn't have To pay penalty Since The error was not our Fault, and deposit was made in the proper Time period.

RECEIVED
NOV 01 1984

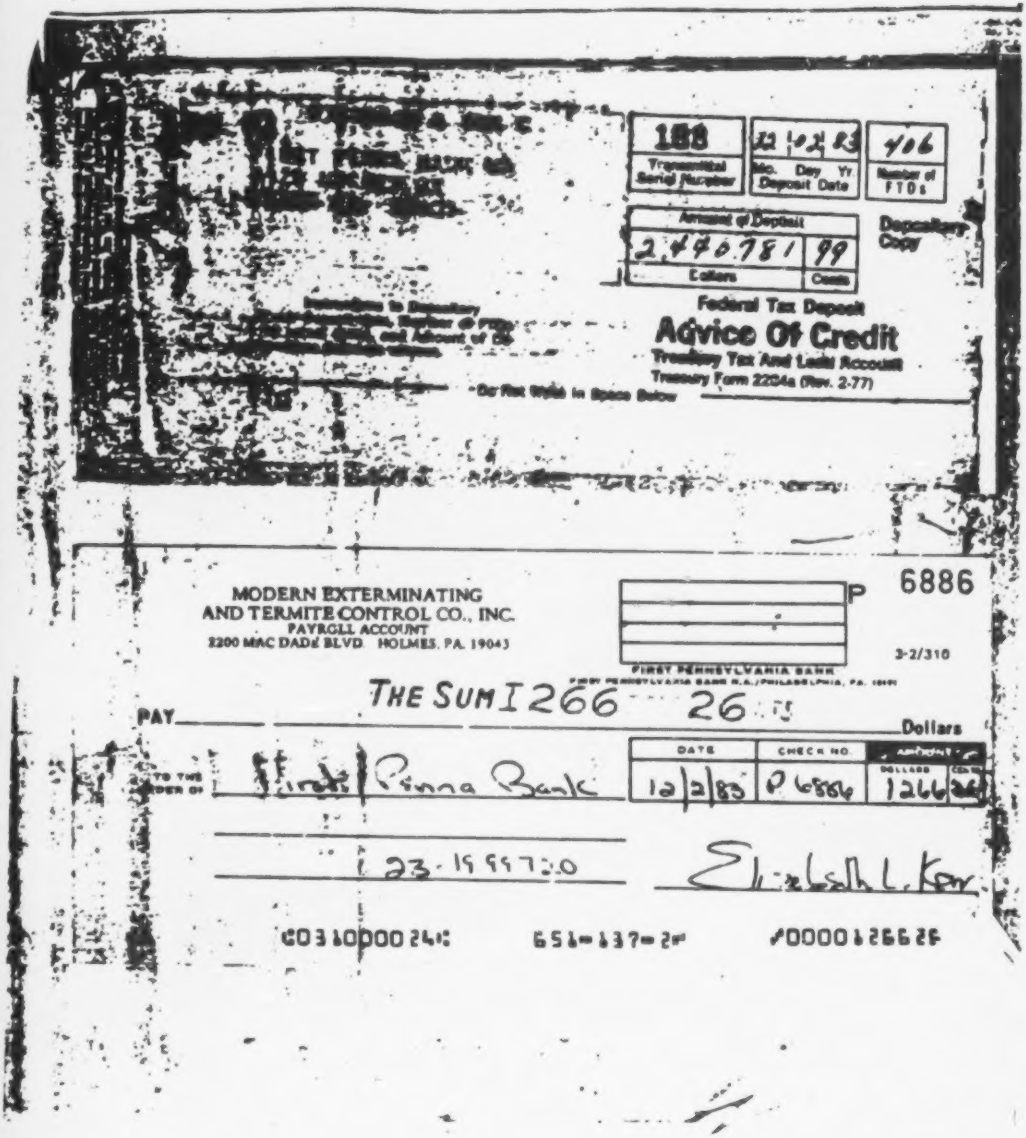
Under penalties of perjury, I declare that I have examined this claim, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signed: Elizabeth L Kerr Dated: [illegible]/28/84, 19

Director's Stamp (Date received)

For Internal Revenue Service Use Only
☐ Refund of taxes illegally, erroneously, or excessively collected.
☐ Refund of amount paid for stamps unused, or used in error or excess.
☐ Abatement of tax assessed (not applicable to estate or gift taxes).

See instructions on back.



188	12 02 83	406
Transmittal Serial Number	Mo. Day Yr. Deposit Date	Number of FTDs

Amount of Deposit

2,440,781	99
Dollars	Cents

Depositary Copy

Federal Tax Deposit

Advice Of Credit

Treasury Tax And Loan Account

Treasury Form 2204a (Rev. 2-77)

Do Not Write In Space Below

MODERN EXTERMINATING
AND TERMITE CONTROL CO., INC.
PAYROLL ACCOUNT
2200 MAC DADE BLVD. HOLMES, PA. 19043

P 6886

3-2/310

FIRST PENNSYLVANIA BANK
FIRST PENNSYLVANIA BANK N.A./PHILADELPHIA, PA. 19101

PAY THE SUM 1266 26 Dollars

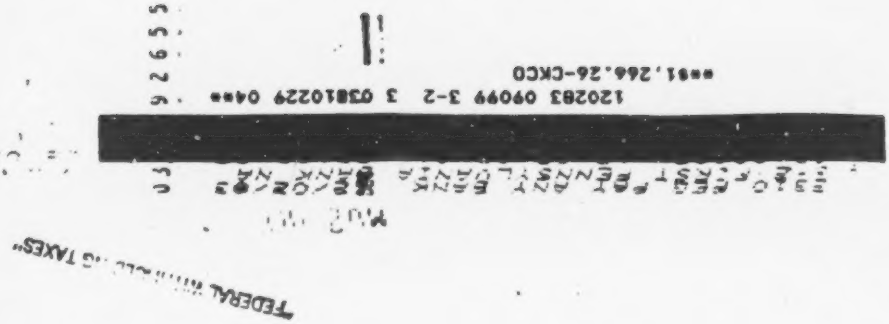
TO THE ORDER OF First Penna Bank

DATE	CHECK NO.	AMOUNT DOLLARS	CENTS
12/2/83	P 6886	1266	26

23-1999720

Elizabeth L. Kerr

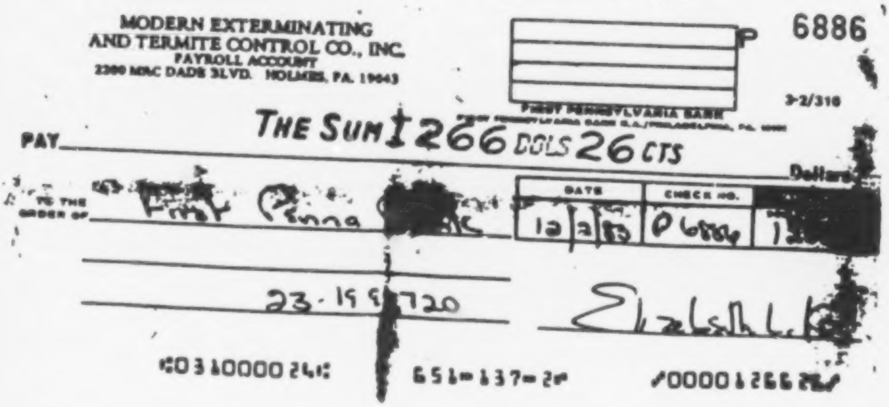
031000024 651-137-2 0000126626



**$1,266.26-CKCO

120283 09099 3-2 3 03810229 04**

[redacted]



MODERN EXTERMINATING
AND TERMITE CONTROL CO., INC.
PAYROLL ACCOUNT
2200 MAC DADE BLVD. HOLMES, PA. 19043

6886

3-2/310

FIRST PENNSYLVANIA BANK

PAY THE SUM 1266 DOLS 26 CTS Dollars

TO THE ORDER OF First Penna [illegible]

DATE	CHECK NO.	
12/2/83	06886	[illegible]

23-1959720

Elizabeth L. K

⑆0310000 24⑆ 651-137-2⑈ ⑈0000126626⑈

PHILADELPHIA, PA 19255

[redacted]
JULY 31, 1984 LTR 86
23-1999720
00028

MODERN EXTERMINATING & TERMITE
CONTROL CO INC
2200 MACDADE BLVD
HOLMES, PA 19043

Employer Identification Number: 23-1999720
Your Correspondence Dated: April 18, 1984

Dear Taxpayer:

We located your payment of $1,266.26. It posted to your Form 940 Account, period ending Dec. 31, 1983. Our records show your received a refund totaling $1,281.46,on March 19, 1984. The balance due is correct. (2)

Sincerely yours,

Chief, Taxpayer Assistance Section

modern
EXTERMINATING & TERMITE CONTROL CO., INC.

September 27, 1984

INTERNAL REVENUE SERVICE
Phila., Pa. 19255

RE: Check amount $1266.26
I.D. #23-1999720

Dear Sir,

As per our telephone conversation on 9-26-84 with Mrs. Weathers. In reference to the check, which you have in the amount of ($1266.26), would you please credit that to our 941 to period ending 12-31-83. I feel that we are not responsible for any interest or any penalty charges due to the fact it was sent to you when it was originally due, but the I.R.S returned it as an overpayment.

Hope this will correct this matter. If I can be of any more help please contact me.

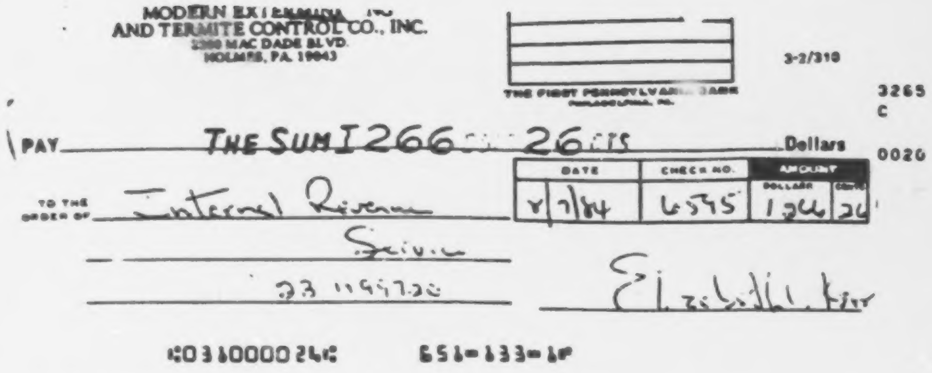
Sincerely Yours,

Elizabeth L. Kerr

ELIZABETH L. KERR

[illegible]

[illegible]



MODERN EXTERMINATING
AND TERMITE CONTROL CO., INC.
2300 MAC DADE BLVD.
HOLMES, PA. 19043

THE FIRST PENNSYLVANIA BANK
PHILADELPHIA, PA.

3-2/310

3265
C

PAY THE SUM 1266 26 CTS Dollars

0020

DATE	CHECK NO.	AMOUNT DOLLARS	CENTS
8/7/84	6595	1266	26

TO THE ORDER OF Internal Revenue Service

23 1199720

Elizabeth L. Kerr

⑆0310000 24⑆ 651-133-1⑈

Employer Identification Number: 23-1[illegible]99720
Your Correspondence Dated: April 18, 1984

Dear Taxpayer:

We located your payment of $1,266.26. It posted to your Form 940 Account, period ending Dec. 31, 1983. Our records show your received a refund totaling $1,281.46, on March 19, 1984. The balance due is correct.

Sincerely yours,

Chief, Taxpayer Assistance Section

8/7/84

Form **668-D**
(Rev. January 1981)

Department of the Treasury – Internal Revenue Service

Release of Levy

To
First Penn Bank N A
Automatic Data Processing
3030 Market St
Phila Pa 19101

On 10/13, 1984, a notice of levy was served on you at the above address and demand was made for the surrender of all property, rights to property, money, credits, and bank deposits then in your possession, to the credit of, belonging to, or owned by Modern Exterminating & Termite Control Co Inc of 2200 MacDade Blvd Holmes, Pa 19043 for unpaid internal revenue taxes, with additions provided by law which, at the time of the levy, amounted to $ 1,527 59.

Under the provisions of Internal Revenue Code section 6343, property, rights to property, money, credits, and bank deposits of more than $ 0.00 are released from the levy.

Dated at 724 E Market St West Chester Pa 19380 (Place) 10/26, 1984 (Date).

Signature	Title
	Revenue Officer

Internal Revenue Code

Sec. 6343. Authority to Release Levy and Return Property

(a) Release of levy.—It shall be lawful for the Secretary, under regulations prescribed by the Secretary, to release the levy upon all or part of the property or rights to property levied upon where the Secretary determines that such action will facilitate the collection of the liability, but such release shall not operate to prevent any subsequent levy.

597-3377

Part 2 – To Taxpayer

Form 668-D (Rev. 1-81)

[illegible] Service
600 Arch St.
Phila. Pa. 19106

[illegible]

Date: 1/21/85

Modern Exterminating & Termite Control

In response to an inquiry from Thomas P. McCrink, our research indicates your payment of 1,527.59 is in the process of being credited to your 4th Qtr. 941 account. When processing is completed, you will receive a refund of $305.34, which will represent your overpayments from form 1120 which were applied to this account. Please allow at least four weeks for completion.

Miss Adkins
597-9197

ADP's #

Form 5260A (1-83)

Department of the Treasury

GPO 874 390

Rec. letter
1/22/85

United States Senate
Washington, D.C. 20510

JOHN HEINZ
Pennsylvania

ARLEN SPECTER
Pennsylvania

January 22, 1985

Mr. Thomas McGinn
18 East Lancaster Avenue
Malvern, Pennsylvania 19355

Dear Mr. McGinn:

Thank you for your recent correspondence concerning the Internal Revenue Service.

In order to assist you in a more time-saving and cost-effective manner, we have joined together to handle all constituent casework. Your case will be handled by Senator Heinz' Philadelphia office.

An inquiry to appropriate officials has been initiated on your behalf. As you know, thorough investigations take time, but please be assured that you will be contacted as soon as Senator Heinz' office receives a response from the agency.

We are enthusiastic about this joint venture and look forward to helping you in every way possible.

Yours sincerely,

John Heinz
United States Senate

Arlen Specter
United States Senate

JH/AS/hsi
cc: Mr. James Kerr
Modern Exterminating, Incorporated
2200 MacDade Boulevard
Holmes, PA 19043

☒ Philadelphia Regional Office
9456 William Greene Federal Building
6th and Arch Streets
Philadelphia, Pennsylvania 19106

☐ Pittsburgh Regional Office
2031 Federal Building
Pittsburgh, Pennsylvania 15222

Internal Revenue
Service Center

Mid-Atlantic Region
Philadelphia, Pa.

P.O. Box 245, Bensalem, PA 19020

▷Modern Exterminating and Termite
Control Company, Incorporated
2200 Mac Dade Boulevard
Holmes, PA 19043

Person to Contact:
A. Andreano
Telephone Number: (215) 969-2601
This is not a toll free number
Refer Reply to:
TA:T:T:SR:mk
Date:
February 14, 1985

Gentlemen:

This is in further response to a letter, written in your behalf by Senator John Heinz, concerning the problem you are having with Form 941, Employer's Quarterly Federal Tax Return, for the period ending December 31, 1983.

A review of the above account indicates that we have applied your payment of $1,266.26, dated August 10, 1984, and $1,527.59, dated October 26, 1984. We have removed the penalty charged. A refund was authorized, and you will receive the refund check within the next two weeks.

Please accept our apology for the delay in crediting your payments.

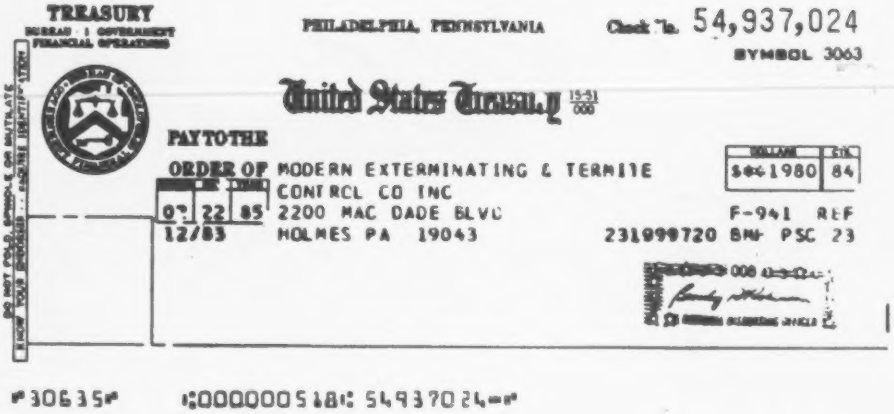
We appreciate your patience and cooperation in this matter.

Sincerely yours,

Charles O. Guy

Charles O. Guy
Acting Director

Rec'd
2/18/85



TREASURY
BUREAU OF GOVERNMENT
FINANCIAL OPERATIONS

PHILADELPHIA, PENNSYLVANIA

Check No. 54,937,024
SYMBOL 3063

United States Treasury 15-51/000

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER — REQUIRE IDENTIFICATION

PAY TO THE
ORDER OF MODERN EXTERMINATING & TERMITE
CONTRCL CO INC
2200 MAC DADE BLVD
HOLMES PA 19043

MONTH	DAY	YEAR
07	22	85

12/83

DOLLARS	CTS.
$**1980	84

F-941 REF
231999720 BN PSC 23

30635 000000518 54937024

modern
EXTERMINATING & TERMITE CONTROL CO., INC.

February 28, 1985

MRS. ATKINS
Internal Revenue Service
600 Arch Street
Phila., Pa. 19106

Reference: Refund Check
Amount: $1980.84

Dear Mrs. Atkins,

Receivd a check on Feb.27, 1985 from Internal Revenue, in the amount of $1980.84. Would you please give me the break down. Thank you for you attention in this matter.

Sincerely,

Elizabeth L. Kerr
Elizabeth L. Kerr

ELK/dk

Sent.
2/28/85.

2200 MAC DADE BOULEVARD HOLMES, PENNSYLVANIA 19043 LU 6-5525

Chairman Pickle. Mr. Noll, I wish we could have had your testimony at a time when the Commissioner was here and could hear these statements, but I am going to see that he gets a copy personally for whatever response he would care to make. I know this is bound to bother him. I would hope that this is not typical of all the service centers in the country, but I do know that taxpayer services is an extremely difficult matter for all of us. I don't like to hear this, but we are certainly going to ask for a direct response from the IRS.

With that statement, I would ask you to stay, if you will, at the table and we will go next to these two gentlemen.

Mr. Wilf?

STATEMENT OF MERVIN M. WILF, CHAIRMAN, SECTION ON TAXATION, PHILADELPHIA BAR ASSOCIATION, ACCOMPANIED BY JOSEPH LUNDY, SECRETARY-TREASURER

Mr. Wilf. Thank you, Mr. Chairman. My name is Mervin Wilf. I am the chair of the Philadelphia Section of Taxation, Philadelphia Bar Association. At the outset, I would like to note that our prime concern is not the issue which was so well and elaborately explored earlier today. As a matter of fact, our bar association, our section on taxation, didn't even know of the existence of that problem until the day we wrote a letter to Mr. Egger.

Our problem is a different one. Our problem involves the fact that the Internal Revenue Service has sent notices of late filings and penalties for late filings and interest on penalties for late filings to taxpayers who, admittedly, did not file late.

Now, in the course of the prior hearing, Representative Thomas had asked the question, "Did the IRS make money on the Philadelphia situation?" referring to the broader situation of the FTD's, and the answer was "No," from the Commissioner.

But in our situation, the answer is yes. The IRS has money belonging to the taxpayers which it will not on its own initiative seek to refund.

Congressman Schulze asked the question, and quoted from our letter in response to Regional Commissioner Waters (attachment A-3), that it was not fair that the IRS has sent out these erroneous notices, admitted erroneous notices, and there was no question about that. The Commissioner answered that if we know of the refund we will send it. But that really begs the question because the same people who sent in their payment for erroneous claims of penalties and interest are not going to file a claim for refund. Their fear of responding to an IRS notice letter cannot be compared to the fear—if there is fear or ignorance—of the involvement of filing a rather complicated case for refund.

So, although we hesitate, in general, to disagree with the Commissioner, because he has done a fine job, we do take issue with his agency's responsibility, not uniquely his own responsibility, of refusing to acknowledge the fact that out there are people who sent in money to the Internal Revenue Service because the Service made an error.

What was that error? As far as we were able to find out, in 1983, many taxpayers had their estimated tax returns and payments sent by registered, or certified mail to the Internal Revenue Service. This is almost standard operating procedure. We also found out that because it is sent by certified or registered mail, return receipt requested, those particular letters do not get serviced as promptly as regular mail.

In 1984, after the 1983 returns were filed, it was erroneously determined that there has been late payment of estimated taxes for 1983. The envelopes showing the payments dates had been discarded. Whether they were shredded or thrown away, we do not know.

So we have three items here. We have registered or certified mail on the filing of return. We have delay in processing those returns; according to the IRS, the payments were not made until 10 to 15 days later. And the third thing, that the envelopes which prove that they were filed on time were discarded.

Now, all of this does not appear in the testimony which we have sent to you, Mr. Chairman. I thought rather than recite the whole thing in full, we would just comment on some of the issues here. We have also given to you at the beginning of these hearings a set of four documents which show the typical situation in which taxpayers were erroneously assessed and some paid those penalties and interest.

I am asking Mr. Lundy, the secretary-treasurer of the Philadelphia Bar Association Section on Taxation, to go through these documents, item by item with you and Mr. Schulze.

Mr. PICKLE. Mr. Lundy, go ahead.

Mr. LUNDY. Mr. Chairman, turning to the documents to which Mr. Wilf is referring, and going from the document on the bottom to the top. The first document that I am referring to, on the upper right hand corner is dated August 27, 1984, and I start out, Mr. Chairman, with the statement that all four of these documents have been carefully gone over and any names or references to individuals or amounts have been deleted so that they represent what we would refer to as "sanitized" forms. Nevertheless, they represent a typical situation in which, in fact, a taxpayer received these forms over a period of time beginning August 27, 1984.

Mr. WILF. Mr. Chairman, have you located that particular document? It is the last of the four that were presented to you, sir?

Mr. LUNDY. Mr. Chairman, we are going chronologically from the bottom to the top.

These are the types of notices and forms that are being issued by the Philadelphia Service Center in connection with the problems to which we are referring. If you would note the bottom document, in the upper right hand corner, the date of this notice is August 27, 1984.

Chairman PICKLE. Now I have the notice.

Mr. LUNDY. As I indicated, Mr. Chairman, all of these documents have been sanitized to remove any amounts or any references to taxpayers' identification numbers or the like. Anything that appears is merely the standard part of the form as it is issued by the Philadelphia Service Center.

I would point out at the outset that this form is generated as a result of the following law. The law generally requires that a taxpayer estimate, declare, and pay on a quarterly basis one's current projected tax liability. The quarters end April 15, June 15, September 15, and Congress changed to January 15 the quarter that would normally end at December 15. And that is supplemented, of course, by withholding at the source in the case of wages and certain other types of withholding. But, it is a basic source of tax payment deposits, as is the case in the corporate sector, which are the matters that were testified to earlier.

The law further requires, or imposes a penalty for failure to timely declare and pay one's estimated tax liability and then, to the extent that there is imposed a penalty for late compliance, the law imposes interest on that amount of penalty so that in addition to the penalty being imposed for the late filing of one's quarterly declaration of estimated tax liability to the extent that there is a penalty, there is interest imposed thereon.

In this case, this notice was issued on August 27, 1984, to the taxpayer and it carried with it a penalty for the underestimation, the failure to timely file and pay a quarterly estimate of tax liability, and also imposed, in addition to the penalty, an interest payment.

This is the preliminary notice that is received and it is just a notification by the Service Center that in fact there is a penalty as a result of the underestimation and the amount of the penalty and the amount of the interest thereon. You will note at the bottom left there are the penalty amounts that are asserted on a quarterly basis.

Turning to the next form, the next page, one can see it is the second in the series of notices, and this notice is dated October 19, 1984. This notice is a followup to the first and indicates, among other things, that the taxes, or in this case, penalty and interest are overdue. The law authorizes the Service to file a notice of Federal tax lien and to seize property, wages, or other assets to satisfy the underpaid tax. Again, it carries at the bottom the amount that should be remitted.

In this particular instance, Mr. Chairman, the third notice, the third piece of paper in the packet is now dated December 13, 1984, and this one is the first response to the taxpayer's attempt to rectify or resolve the situation. In this instance, the Service notifies the taxpayer of its regret that it cannot change or modify the penalty because the Service's records indicate that in fact the payments were received by the Service Center on April 23, September 22, and January 26.

At this point, I would like to call to your attention the fact that the law provides that a return is deemed filed and a payment is deemed to be made when the envelope is posted with the U.S. Mail Service, so that when we go to the post office box and drop the letter carrying a check, together with the form, into the post office's hands, that becomes the time of the payment.

This presents a question of proof as to the mailing date of the particular check and the particular form. In this instance, the Service Center's records reflect that the amounts were received on April 23, June 28, September 22, and January 26, in each case, at least 7 or 8 days beyond the date the installment was due.

Finally, the first page in this packet reflects the final notice. As the Service indicates in its December 28, 1984, notice, this is the final notice and a notice of intention to levy. It indicates that nothing has been done, that there is now a situation where the Service intends to go forward and to levy upon property and rights to property in accordance with the law.

These series of notices, we believe, were issued in connection with a situation in which form and payments were made to the Internal Revenue Service by, as Mr. Wilf described, certified mail and further, where there is an inability of the Service to determine when, in fact, such were mailed because of the failure to retain the proper receipts—the envelopes indicating the time of placing the particular payment and the return in the mail.

Mr. WILF. Now, in this particular instance, Mr. Chairman, we are informed that there were communications to the Service from the date of the first letter and that the second notice went out without acknowledging those communications. The third letter did acknowledge the receipt of communications but said we—the Service—don't have any proof, you have to prove it to us. And even after return receipt stubs we were told were sent to the Service, the additional notices were sent.

We do not know how this one turned out. We think that it was called off before the Service actually levied.

The Section on Taxation sent the questionnaire, which is attached to material which was previously sent to you, to all of our members; that questionnaire is attached as exhibit D at the end of our prior submission. From this we tried to ascertain other instances that determine how widespread or not widespread the situation may be.

From the answers that we received, we believe that the situation is very widespread because it is well known that most large law firms and most large accounting firms, and small law firms and small accounting firms as well, will take the extra protection of sending their returns and payments by registered or certified mail, return receipt requested. And yet we have a situation where the IRS has gone out, posted these dates of payment, the dates that they actually got around to it, which also means that the Service did not cash those checks a lot sooner than they should have, which is again a questionable practice. A lot of people, we are afraid, have made payments of these erroneous penalties and interest assessments, because of ignorance or fear or just because it was too much trouble or bother to try and fight it.

Now, we don't think that is appropriate. We had hoped that the Service, on its own, would take the initiative to locate these people and refund them the money improperly collected, they are not going to go and file claims for refunds.

We were disappointed with Regional Commissioner Water's letter. We did not ask for any kind of complete amnesty on this problem, but we do suggest that there must be some way of finding out who these people are who have paid money to the Service. The Service is keeping their money and nothing is forthcoming from the Service.

We also share the feeling of yours, Mr. Chairman, and are sort of puzzled by the Commissioner's testimony that he doesn't need additional funds. We know that the Commissioner testified before the House Appropriations Committee on March 7 about the funding requirements. As tax practitioners, and as members of the section on taxation specifically, we support additional funding for the Service. The stronger the Service, the better we as practitioners like it.

By and large the Service in Philadelphia has been fair and steady in its procedures. We believe the problem of erroneous penalty notices may be an anomaly. We hope that the Commissioner and the regional commissioners will take care of this, but right now, we do not think that the Service has been fair and we hope that this subcommittee can help the taxpayers in our area to get the appropriate claims for refunds for erroneously assessed penalties and interest.

We have also attached to our submission instances of which your staff says you have buckets full, of other instances where the Commissioner and his troops have not been able to respond to taxpayer letters, and as has been said earlier, have not been able to turn off the computer.

That is essentially our testimony, Mr. Chairman. Again, we will be pleased to answer any questions.

[The prepared statement and attachments follow:]

Statement of Mervin M. Wilf, Chairman, Section on Taxation, Philadelphia Bar Association

SUMMARY OF PRINCIPAL POINTS INCLUDED IN STATEMENT

(1) The Tax Section of the Philadelphia Bar Association is highly concerned over the Internal Revenue Service's position regarding notices for late filing penalties and interest where taxpayers have made timely payments. It has made known its views both to the Regional Commissioner of the Mid-Atlantic Region and to the Commissioner of Internal Revenue.

(2) The response of the Service to the Tax Section's inquiry has been twofold. First, the Tax Section has been told that the Service has taken steps to correct the erroneous issuance of notices for late filing penalties with respect to payments due January 15, 1985 and thereafter. Second, the Service will not undertake a program to determine those cases in which it has erroneously issued late filing penalties and grant, on its own initiative, a refund of the erroneously determined penalties and interest. See Commissioner Waters' letter of February 12, 1985.

This latter position of the Internal Revenue Service is most regrettable. There has been no suggestion that the Service is unable to carry out such a program.

(3) The Tax Section is concerned that the erroneous issuance of late filing penalties was widespread and that many

taxpayers paid penalties and interest either out of ignorance, a general fear of the Internal Revenue Service and, therefore, an unwillingness to come forward and make a claim, or a feeling by taxpayers that it is less costly to pay the penalty and interest than hire an expert to recover them.

(4) The Tax Section has circulated a Questionnaire to its members addressing the issues of erroneous issuances of notices for late filing penalties and of computer foul-ups in general. The responses to the Questionnaire give the Tax Section cause for grave concern that both problems are widespread.

(5) In some reported cases, where taxpayers have attempted to clear up the erroneous issuance of notices, they have been frustrated in their attempts to do so. Often, after having discussed the matter by telephone with an Internal Revenue Service representative and having been assured that the matter has been rectified, or after submitting in writing documentation that the taxes were timely paid, taxpayers continued to receive computer-generated notices for penalties and interest and, in some cases, notices of liens and of other attendant proceedings.

(6) Almost uniformly, those responding to the Questionnaire have indicated that they believe these problems are widespread. We also are led to believe that the Internal Revenue Service may not have the ability to physically handle the responses by taxpayers to computer-generated notices. This may be the most serious issue of all. If the Internal Revenue Service does not have adequate resources to do its statutorily mandated

job, then the job will not be done until it is afforded those resources. This hearing should elicit sufficient information on this vital issue.

STATEMENT

My name is Mervin M. Wilf and I appear on behalf of the Section on Taxation of the Philadelphia Bar Association to present the Section on Taxation's views on the tax payment posting problems and related problems in the Internal Revenue Service Center.

The Section on Taxation of the Philadelphia Bar Association is highly concerned about the issuance by the Internal Revenue Service of notices for late filing penalties and interest where taxpayers have made timely payments. We have made known our views both to the Regional Commissioner of the Mid-Atlantic Region and to the Commissioner of Internal Revenue. Attachments A-1, A-2 and A-3 are, respectively, the Tax Section's letter of January 30, 1985 to Commissioner Egger, Regional Commissioner Waters' letter of February 12, 1985 to us, and the Tax Section's letter of March 5, 1985 to Regional Commissioner Waters.

The response of the Internal Revenue Service to our inquiry has been twofold. First, we have been told that the Service has taken steps to correct the erroneous issuance of notices for late filing penalties with respect to payments due January 15, 1985 and thereafter. A Council task force of the Section on Taxation has been appointed to monitor the situation to determine whether in fact this problem, for the future, has been corrected. Second, the Service will not determine those cases in which it has erroneously issued late filing penalties and grant, on its own initiative, a refund of the erroneously determined penalties and interest. See Regional Commissioner Waters' letter of February 12, 1985.

This latter position of the Internal Revenue Service is most regrettable. There has been no suggestion that the Service is unable to carry out such a program. We are concerned that the erroneous issuance of late filing penalties was widespread and that many taxpayers paid penalties and interest either out of ignorance, a general fear of the Internal Revenue Service and, therefore, an unwillingness to come forward and make a claim, or a feeling by taxpayers that it is less costly to pay the penalty and interest than to hire an expert to recover them. If a tax system is to be respected, it must be fair. The handling of this issue in the manner indicated by the Internal Revenue Service cannot be described as fair.

We have circulated a Questionnaire to the members of our Tax Section addressing the problems of erroneous issuances of notices for late filing penalties and of computer foul-ups in general. Attachment B is the Questionnaire circulated to our members. The responses to our Questionnaire give us cause for grave concern that both problems are widespread. However, we cannot document this with any degree of reliable certainty. Only the Internal Revenue Service has the facts. We trust your hearing will bring forth the requisite facts so we all can understand the magnitude of the problem.

In some cases reported to us, where taxpayers have attempted to clear up the erroneous issuance of notices, they have been frustrated in their attempts to do so. Often, after having discussed the matter by telephone with an Internal Revenue Service representative and having been assured that the matter has been rectified, or after submitting in writing documentation that the taxes were timely paid, we are advised taxpayers continued to receive computer-generated notices of penalties and interest and, in some cases, notices of liens and of other attendant proceedings.

Almost uniformly, those responding to our Questionnaire have indicated that they believe these problems are widespread. We also are led to believe that the Internal Revenue Service may not have the ability to physically handle the responses by taxpayers to computer generated notices. This may be the most serious issue of all. If the Internal Revenue Service does not have adequate resources to carry out its statutorily mandated job, then the job will not be done until it is afforded those resources. Your hearing should elicit sufficient information on this vital issue.

Specific situations and comments called to our attention in response to our Questionnaire include the following:

"Like all local tax practitioners, I regret to report to you chronic and habitual computer foul-ups with the IRS. While some of these foul-ups are as a result of computer notices being sent out before appropriate information has been processed, and while other foul-ups are computer-generated notices resulting in reality from human error, the fact of the matter is that these problems are extreme and growing worse. I cannot protest them loudly enough, and I trust that you will do the same on the behalf of all tax practitioners in the area.

In terms of specific problems, I would cite to you one typical example. Recently, the widow of a deceased client began receiving horrendous $100,000 plus penalty notices and assessments for a supposed under-reporting of income, in the amount of $60,000, by her husband in the tax year 1981. As it turned out, there were minor omissions and/or errors by the decedent's former accountant (due to the extensive number of dividends) amounting to some $1,500, which we readily conceded to the Service. The major problem, and the one which triggered questions, etc., was the inadvertent supplying of a 1099 MISC. rather than a 1099 DIV. for a $60,000 plus dividend the decedent had received from his own company. While I have repeatedly pointed out to a plethora of agents and offices locally the true nature of the problem, and have been repeatedly assured that the information I have supplied is sufficient, the system continues to harass my client with $100,000 plus assessment notices. Not only has this caused extreme mental anguish to my client, it has also cost her at least one thousand dollars in wasted legal fees to date and, of course, has strained the attorney/client relation since the client, the typical unsophisticated widow, cannot understand why her expensive tax counsel cannot resolve this relatively simple misunderstanding without spending thousands of dollars. The situation has reflected horrendously on my abilities as an attorney in her eyes, and well may in fact have caused the loss of some or all of her business in the future; certainly, it played a part in her recent decision not to have this office prepare her income tax returns any longer. Although the fact of the matter is that this client's affairs have settled to the point where they can once again be taken over by accountants rather than lawyers, I resent immensely this unwarranted intrusion by the Service and its computer into both the life of my client and into our otherwise satisfactory attorney/client relation.

Please, I urge you, forward this complaint with the others to the IRS...."

"Another recent occurrence was the receipt by a church on January 19 of a Notice of Levy on the salary of its minister...because of the minister's alleged failure to make timely payment of the estimated taxes. The minister, who fortunately had registered mail receipts for all his payments, had been trying since August to straighten out his accounts."

"The Service Center computer was disgorging erroneous notices as recently as January 18, on which date a registered mail notice was received by one of my partners warning that the IRS was about to levy on their property. He had provided IRS with copies of his registered mail receipts on two prior occasions."

"In addition to late filing penalty notices, we recently received at least two notices that the Service had not received payment of Federal estate tax but had received the returns. In one case, the return and payment were delivered by messenger to the IRS office at Arch Street and a receipt was obtained. Hence, that problem did not involve the U.S. mails."

"Upon receipt of Treasury Form 1042 (relating to the withholding of tax on payments of periodic income to foreign persons) filed by a major corporate taxpayer, the Service assessed a very substantial amount of additional tax under Code §1441 despite the fact that the taxpayer attached to the return copies of Treasury Forms 1001 and 4224 which established that the interest payments in question were exempt from U.S. withholding tax. The Service Center computers generated a series of assessment and collection notices to which the taxpayer responded in writing or by phone over a period of six to eight months. Each time the taxpayer was assured by IRS personnel that the matter would be straightened out. However, the correspondence never caught up with the assessment notices and the matter was referred to Collections which then proceeded to send a notice of lien and intent to levy if payment was not received within 10 days. Unfortunately this letter was received by the taxpayer on the day that the taxpayer received word from one of its banks that the Collections officer had levied on the taxpayer's account at that bank. Fortunately, once the problem was brought to his attention, the Collections officer acted in a responsible manner. Upon receipt of evidence which indicated that the assessment was probably erroneous, he released the levy and sent the file back to the Service Center for technical review. In due course the lien was released and the erroneous assessment has been reversed. Of course, the taxpayer was inconvenienced and put to some expense by this unfortunate experience. A similar problem for the next year was resolved only after the problems resolution office was involved.

The inability of the Service Center to associate correspondence with computer notices, together with an assessment of tax in a situation which raised legal and factual issues, is inconsistent, in my view, with the sound administration of the Service Center and the Internal Revenue Code."

"Computer Foul Ups: I have had a number of cases where the Service Center had not given a taxpayer credit for advance payments of tax and interest. Often, these matters took months to resolve. In addition, assessments have been made in cases where taxpayers have filed petitions with the United States Tax Court. I am not sure if this is a computer foul up or a human foul up. Finally, where taxpayers have gone through examination covering a number of years with the result of deficiencies in some years and refund in other years, the computers have had a great deal of difficulty in crediting overpayments and debiting deficiencies with the result that a number of months of delay took place to finally resolve all tax liabilities."

"Clients have received erroneous computer-prepared letters re: non-filing of tax returns (individual, corporate, trust, and partnership) and no IRS record of payment of estimated taxes (individual and corporate). In most instances additional notices were received despite forwarding to IRS complete information."

"When the computer foul-ups are combined with my frustration in having Form 1040X refund claims taking in excess of eighteen months to be paid, I become a strong advocate for the government contracting work out to the private sector."

"One of our clients recently had an unfortunate experience on an IRS collections matters. Although I believe the problem is now resolved, it nevertheless illustrates a concern that I think should be addressed by the District Director's Office. Although our client had difficulties with respect to several years, the most serious problems involved 1980 and 1981. The principal events for those years were as follows:

1. December 22, 1983. Letters from IRS to client demanding payment of 1980 and 1981 balances due of $200.67 and $28,593.91, respectively.

2. December 30, 1983. Checks to IRS for $200.67 and $28,593.91. Checks cleared on January 9, 1984.

3. January 13, 1984. Letters from IRS to client demanding payment of 1980 and 1981 balances due of same amounts, plus interest and threatening enforcement action if amounts are not paid within ten days. Letters further state that no enforcement action will be taken if amounts are paid.

4. February 15, 1984. Letter from IRS to client demanding payment of 1980 and 1981 balances due plus interest and threatening enforcement action if amounts are not paid within ten days.

5. February 23, 1984. Client's accountant met with IRS to discuss alleged balances due. At that time, he communicated the fact that payment had been made a month and a half earlier.

6. March 14, 1984. Client receives notice of lien on his personal residence based upon the 1980 and 1981 balances due plus a disputed amount with respect to another year. The lien was dated February 23, 1984.

Several meetings and phone calls later the problem was eventually resolved, although there was one further levy notice issued in the amount of $11.44 requiring the client to pay a $10.00 fee for the lien (which should never have been imposed) on his personal residence. The only explanation we have ever received to "justify" the February 23, 1984 lien was that the December 30th payments were not communicated to the District Director because of a "computer malfunction."

Much has been written lately about the need for the Internal Revenue Service to beef-up its collections process so that delinquent taxpayers are not allowed to ignore their legitimate tax obligations. At the same time, however, it is important that the Internal Revenue Service improve its method of logging and responding to taxpayer letters and taxpayer payments. With the modern computer technology described by the District Director in his recent speech to the Philadelphia Bar Association Tax Section, the District Director's Office should be able to check the payment status of an account and stop a lien if payment has been made within the last twenty-four hours, let alone within the last six weeks as was the case here.

Collections action should also be suspended if there is a legitimate issue raised by the taxpayer indicating that the billing may be improper. Presently, when such issues are raised, the taxpayer, or his adviser is told by the IRS representative that the taxpayer will probably receive one or two more bills, but that he should ignore them! Most of my clients feel very uneasy about ignoring IRS letters threatening collections action."

"Please be advised that I had a very unusual situation where tax had already been paid but the payment was effectively in the wrong year and instead of ultimately refunding the overpayment, the Service just made an arbitrary unjustified assessment to zero off the account for the year of the overpayment.

They then sent a computer notice for another year in the same identical amount. A letter was sent to the Service fully explaining the situation and sending them copies of the appropriate documents, but again the computer could not be turned off and a tax lien was filed. It was only after a bond was posted and the Revenue Officer was able to obtain original documents from the Service Center, that he was able to adjust the accounts and return the bond to us.

I wrote a letter to the Commissioner concerning this matter after it had been completely resolved, just calling to his attention the serious problem of the Philadelphia Service Center's inability to address correspondence quickly enough to turn off the computer on collection matters. I never received a response directly from the Commissioner, but I did receive a response from the Director of the Service Center and ultimately a supervisor in Collections sent me a pro forma letter which obviously was to give the taxpayer something that he could show people that the problem was the Service's fault and not any dereliction on the taxpayer's part.

However, at no time has anyone ever acknowledged the issue which I raised with the Commissioner which is the general problem of the inability to promptly handle correspondence at the Service Center."

"My clients' most frequent problem with the IRS's computer is in respect to estimated tax penalties. Particularly troublesome is when the taxpayer receives a Final Notice, indicating imminent collection, and the IRS representative cannot or will not make a correcting adjustment, including a stay of collection, because the computer system is down, which seems to be 75% of the time."

"Numerous computer foul-ups on collection matters, issuance of erroneous refund checks, and demand for payment of tax where none is due."

"Too numerous to mention. All year long we, as public accountants, receive erroneous penalty and interest billings continuously. Some are resolved by sending letter and copies of cancelled checks. Others require two or more letters."

"When I write to explain what I consider to be an IRS error, I receive no response except for a computer generated letter saying client owes money and collection efforts will start. It troubles me that my correspondence is not matched up quickly with IRS notices."

"My experience relates to Form 5500. It is next to impossible to resolve late filing issues. It is an unreasonable burden on filers and their representatives to have to deal only with a computer."

The Tax Section stands ready to assist this Committee of the Internal Revenue Service in any way it can to rectify these serious problems. Much has been written and said about the complexity of the tax laws and the efforts to simplify them. Too little has been said about the administration of our tax laws. If our tax laws are not administered fairly, respect for them and taxpayer compliance will diminish. The underpinning of maintaining the integrity of our tax system is that it be fairly administered.

MERVIN M. WILF

A-1

CHAIR
[illegible] M. WILF
[illegible] TWO PENN CENTER PLAZA
PHILADELPHIA PA 19102

VICE-CHAIR
SHELDON M. BONOVITZ
[illegible] ONE FRANKLIN PLAZA
PHILADELPHIA PA 19102

SECRETARY TREASURER
JOSEPH E. LUNDY
THREE PARKWAY 20TH FLOOR
PHILADELPHIA PA 19102

SECTION ON TAXATION

PHILADELPHIA BAR ASSOCIATION
WIDENER BUILDING 2ND FL
1339 CHESTNUT STREET
PHILADELPHIA PA 19107
(215) 686 5686

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STEPHEN C. ZIVITZ

January 30, 1985

The Hon. Roscoe L. Egger, Commissioner
 of Internal Revenue
Internal Revenue Service
Room 3000
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Egger:

Our past Section chairman, Bob McQuiston, has reported to a special task force of the Section's Council on his recent conversation with you. As you know, the Section's concern about the local situation gradually developed into alarm in recent weeks. This alarm deepened when inquiry of members of the tax bar in other parts of the country indicated that the problems appeared to be most severe in this Region. This is why we reluctantly concluded to bring the situation to your personal attention with the hope that resources of the National Office could be tapped to assist those in the Mid-Atlantic Region who are struggling to correct the problems.

We are reassured by the confidence you expressed that the widespread problems of the second half of 1984 are behind us. I have directed our Council Task Force, coordinating with the local chapter of the Pennsylvania Institute of Certified Public Accountants, to continue to monitor the situation closely. If continued problems are experienced, they will be brought to the attention of appropriate Service officials in the Region.

We continue to be concerned about how and when the Service intends to remedy the unfortunate results of past mistakes in asserting late filing penalties when, in fact, no penalty was owing. There is reason to believe that many of these errors may never be called to the Service's attention, because the taxpayers chose to pay the erroneous interest and penalty rather than incur the expense and bother of confronting the Service. Worse yet, some taxpayers may have paid the amounts demanded in such notices out of fear or ignorance. We fully appreciate that you adhere to the principle that our system of voluntary compliance requires the Service to administer the system fairly and equitably. In this instance, we believe that fairness and equity means that the Service should institute action, on its own, to refund any interest and penalty it may have wrongfully collected. We respectfully urge you to take prompt action to make innocent taxpayers whole again.

We also wish to express our concern about the frequent inability of the Service's computer-dominated system to respond appropriately to taxpayer communications made in response to computer-issued notices. For example, in connection with the erroneous late filing notices discussed above, computer printed follow-up and even levy notices were issued after a taxpayer's representative had effected oral or written contact with Service personnel in response to a previous notice. Computer programs designed to pursue taxpayers who do not respond to previous notices are a valuable tool in making the tax collection system more efficient. At the same time, our members have been told of the inability of Service personnel to turn off computer programs when such programs are no longer appropriate. Surely, something can be done to eliminate the unjustified burden, frustration and expense occasioned by taxpayers in their responding to these erroneous computer notices.

We appreciate your personal interest in our local situation. We will continue to monitor this situation and to inform you of the progress in eliminating the problems discussed with you. Of course, we stand ready to help in any way we can.

Sincerely,

Mervin M. Wilf, Chairman

MMW:hs

FEDERAL EXPRESS

bcc: Robert E. McQuiston, Esquire
[redacted]
Joseph E. Lundy, Esquire

A-2

Internal Revenue Service Department of the Treasury

Regional
Commissioner

Mid-Atlantic Region

841 Chestnut Street, Philadelphia, PA 19107

FEB 12 1985

Mr. Mervin M. Wilf
Chairman, Philadelphia Bar Association
Widener Building, 2nd Floor
1339 Chestnut Street
Philadelphia, PA 19107

Dear Mr. Wilf:

Your letter of January 30, 1985 addressed to the Commissioner of Internal Revenue has been referred to me for response. As indicated in your letter, Bob McQuiston earlier had discussed the problem of erroneous Estimated Tax Return filing penalties with Mr. Egger. While I understand your concern that some taxpayers may have paid the amounts demanded in those notices out of fear or ignorance, the National Office has again indicated that they cannot agree to a blanket abatement or refund of such penalties. In those instances where either the taxpayer or practitioner requests abatement or refund, we will of course give appropriate consideration.

As was the case with the erroneous estimated penalty notices, we also discussed the matter of lack of responsiveness and related problems stemming from breakdowns in the Philadelphia Service Center at the October meeting of the MAR Lawyers' Liaison Committee Meeting. While we think we have a handle on the problems created for taxpayers and the practitioner community, I encouraged members of the Committee to contact either me or the Assistant Regional Commissioner (Data Processing) whenever they feel the Service Center is not taking required action to deal with a taxpayer's problem. In addition, I have asked Jim Dougherty to explore with the Committee the possibility of another meeting, on-site at the Philadelphia Service Center, at which time we might discuss with Service Center management current problems which may be resolved more expeditiously through our joint efforts.

I appreciate your interest in resolving this situation. My staff will be carrying out its oversight responsibility and monitoring Service Center operations. If you have any further suggestions which would be helpful in resolving this situation, please don't hesitate to contact me.

Sincerely yours,

William D. Waters

William D. Waters
Regional Commissioner

FEB 14 1985

A-3

CHAIR
MERVIN M WILF
1900 TWO PENN CENTER PLAZA
PHILADELPHIA PA 19102

VICE-CHAIR
SHELDON M BONOVITZ
1500 ONE FRANKLIN PLAZA
PHILADELPHIA PA 19102

SECRETARY TREASURER
JOSEPH E LUNDY
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PHILADELPHIA PA 19102

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IAN C TING
RONALD M WIENER
STEPHEN C ZIVITZ

March 5, 1985

William D. Waters,
Regional Commissioner
Internal Revenue Service
Mid-Atlantic Region
841 Chestnut Street
Philadelphia, PA 19107

Dear Commissioner Waters:

Your letter of February 12, 1985, addressed to me was discussed at a special meeting of the Council of the Section on Taxation of the Philadelphia Bar Association on February 21, 1985. This letter represents the unanimous views of the members of Council.

In our letter to Commissioner Egger of January 30, 1985, we requested "that the Service should institute action, on its own, to refund any interest and penalty it may have wrongfully collected." Your letter states that the national office has "again indicated that they cannot agree to a blanket abatement or refund of such penalties." We do not ask for a blanket abatement or refund, although that is certainly one way of making sure that innocent taxpayers are made whole. The Internal Revenue Service prides itself, justifiably, to locate taxpayers who may owe additional funds to the Government. Council continues to have the strong view that the Service should feel an obligation to use its same talents to locate those taxpayers who, the Service admits, paid penalties and interest for which they were not liable, particularly when notices for the late filing penalties continued to be sent after the Service was aware of its error.

Members of Council were disappointed with your response.

Your letter suggests that it would be the responsibility of the taxpayer or practitioner to request abatement or refund. This is an unacceptable position, we respectfully submit, for two principal reasons. First, we believe that many taxpayers paid the improperly assessed penalty and interest out of fear or ignorance; certainly, these same taxpayers are not going to institute a claim for refund for the very same reasons. Second, you are putting the burden on the taxpayer and practitioners to spend their time and money to seek a correction of an error which the Service admits it created. This is hardly the response that we hoped to have received from the Internal Revenue Service.

The Service created the improper payment situation; the Service should correct it.

The second portion of your letter concerns the Service's inability to respond to taxpayer communications to the Service. Your letter relates this lack of responsiveness as "stemming from breakdowns in the Philadelphia Service Center." The issue that we raise has nothing to do with the issue so-well-publicized in the Philadelphia Inquirer at the end of January and beginning of February, 1985. What we are bringing to your attention is not something which is unusual, in the sense of one massive breakdown, but rather an ongoing inability of Service personnel to respond to taxpayer communications in a variety of situations. Your suggestion of another meeting, perhaps on site at the Philadelphia Service Center, would be informative for practitioners. However, what we are more interested in at this time is determining what the Service is doing to correct this situation, not what it may do to explain it. The inability to deal with correspondence in a timely manner no doubt leads to the automatic cycling of additional delinquency-type notices by the computer. There is also the inability of Service personnel, even after personal contact with a taxpayer or practitioner, to turn off the computer-generated notices.

We wish to advise you and Commissioner Egger that the Council of the Section on Taxation has also authorized the Section's officers to request the opportunity to participate at the forthcoming public hearings of the Subcommittee on Oversight of the House Ways and Means Committee. We do this for two reasons. First, we do not believe, as expressed above, that the Service is taking a proper position in dealing with the problems outlined in our correspondence and in prior conversations and meetings. Second, we wish to state to the Congressional Subcommittee that it appears to us that the Service may not be adequately staffed to perform efficiently and that we would support increased funding, if requested by the Service. While the answer may be additional funding, this does not excuse the Service's present position of refusing to cure unfairness of its own making.

We believe that the Service wants to do the right thing for the taxpayers who have been adversely impacted with the problems described in this letter. To that end, we, again, pledge our services and cooperation.

Sincerely yours,

Mervin M. Wilf, Chair

MMW:hs
cc: Sheldon M. Bonovitz, Esq.
Joseph E. Lundy, Esq.
Robert E. McQuiston, Esq.

MEMBERS

TAX SECTION OF PHILADELPHIA BAR ASSOCIATION

QUESTIONNAIRE

Late Filing Penalties
Computer Foul-Ups

Please Check The Appropriate Box

Part I

(1) With respect to filings for periods after January 1, 1984 and prior to January 15, 1985, have clients received erroneous late filing penalty notices where they have sent payments by registered or certified mail?

YES ☐

NO ☐

(2) If your answer to (1) is YES, were there instances where a client paid interest and penalties notwithstanding that he/she had timely paid the taxes?

YES ☐

NO ☐

(3) With respect to filings for period after January 1, 1984 and prior to January 15, 1985, have clients received erroneous late filing penalty notices where they have sent payments through normal mailing channels?

YES ☐

NO ☐

(4) If you answer to (3) is YES, were there instances where a client paid interest and penalties notwithstanding that he/she had timely paid the taxes?

YES ☐

NO ☐

(5) If your answer to (1) or (3) was YES, did your client experience computer foul-ups in attempting to solve these problems?

YES ☐

NO ☐

(6) Within the past 12 months, have clients experienced computer foul-ups in areas other than late filing penalties?

YES ☐

NO ☐

(7) Based on experiences in your practice, do you believe the problem of erroneous late filing penalties is widespread?

YES ☐

NO ☐

(8) Based on experiences in your practice, do you believe the problem of computer foul-ups is widespread?

YES ☐

NO ☐

Please discuss below (or by separate attachment) particular experiences or comments in the areas of late filing penalties and computer foul-ups. The more details we can pass on to the Service, the easier it will be for the Service to make corrections.

MAIL TO:

SHELDON M. BONOVITZ, ESQUIRE
DUANE, MORRIS & HECKSCHER
1500 ONE FRANKLIN PLAZA
PHILADELPHIA, PA 19102

PLEASE RETURN IMMEDIATELY

MEMBERS

TAX SECTION OF PHILADELPHIA BAR ASSOCIATION

QUESTIONNAIRE

Late Filing Penalties
Computer Foul-Ups

Please Check The Appropriate Box

Part II

(1) With respect to filings for the period since January 15, 1985, have clients received erroneous late filing penalty notices?

YES ☐

NO ☐

(2) Since February 1, 1985, have clients experienced foul-ups in areas other than late filing penalties?

YES ☐

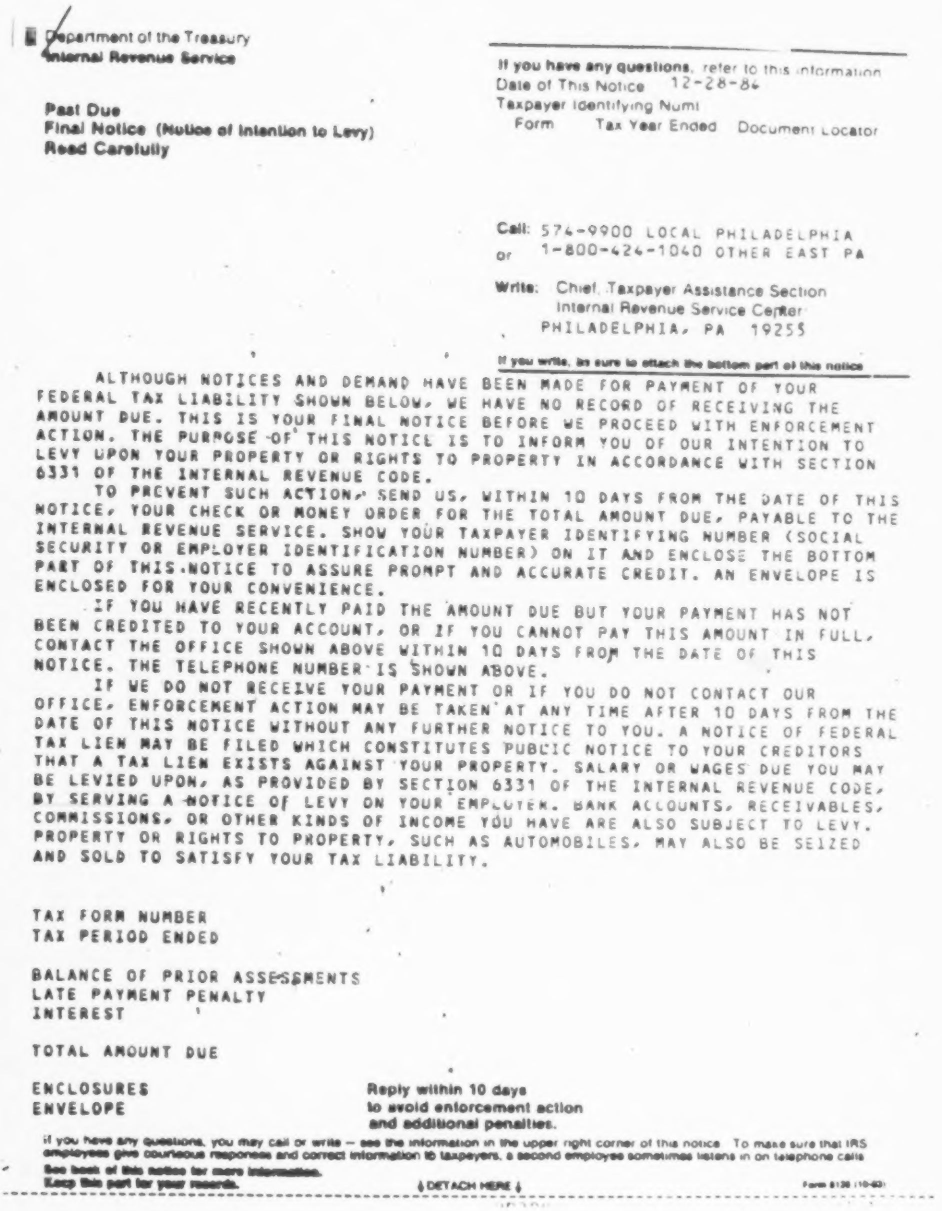
NO ☐

Please discuss below (or by separate attachment) particular experiences or comments in the areas of late filing penalties and computer foul-ups. The more details we can pass on to the Service, the easier it will be for the Service to make corrections.

MAIL TO:

SHELDON M. BONOVITZ, ESQUIRE
DUANE, MORRIS & HECKSCHER
1500 ONE FRANKLIN PLAZA
PHILADELPHIA, PA 19102

PLEASE MAIL AFTER APRIL 1, 1985



Department of the Treasury
Internal Revenue Service

Past Due
Final Notice (Notice of Intention to Levy)
Read Carefully

If you have any questions, refer to this information
Date of This Notice 12-28-84
Taxpayer Identifying Numl
Form Tax Year Ended Document Locator

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EAST PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice

ALTHOUGH NOTICES AND DEMAND HAVE BEEN MADE FOR PAYMENT OF YOUR FEDERAL TAX LIABILITY SHOWN BELOW, WE HAVE NO RECORD OF RECEIVING THE AMOUNT DUE. THIS IS YOUR FINAL NOTICE BEFORE WE PROCEED WITH ENFORCEMENT ACTION. THE PURPOSE OF THIS NOTICE IS TO INFORM YOU OF OUR INTENTION TO LEVY UPON YOUR PROPERTY OR RIGHTS TO PROPERTY IN ACCORDANCE WITH SECTION 6331 OF THE INTERNAL REVENUE CODE.

TO PREVENT SUCH ACTION, SEND US, WITHIN 10 DAYS FROM THE DATE OF THIS NOTICE, YOUR CHECK OR MONEY ORDER FOR THE TOTAL AMOUNT DUE, PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER (SOCIAL SECURITY OR EMPLOYER IDENTIFICATION NUMBER) ON IT AND ENCLOSE THE BOTTOM PART OF THIS NOTICE TO ASSURE PROMPT AND ACCURATE CREDIT. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

IF YOU HAVE RECENTLY PAID THE AMOUNT DUE BUT YOUR PAYMENT HAS NOT BEEN CREDITED TO YOUR ACCOUNT, OR IF YOU CANNOT PAY THIS AMOUNT IN FULL, CONTACT THE OFFICE SHOWN ABOVE WITHIN 10 DAYS FROM THE DATE OF THIS NOTICE. THE TELEPHONE NUMBER IS SHOWN ABOVE.

IF WE DO NOT RECEIVE YOUR PAYMENT OR IF YOU DO NOT CONTACT OUR OFFICE, ENFORCEMENT ACTION MAY BE TAKEN AT ANY TIME AFTER 10 DAYS FROM THE DATE OF THIS NOTICE WITHOUT ANY FURTHER NOTICE TO YOU. A NOTICE OF FEDERAL TAX LIEN MAY BE FILED WHICH CONSTITUTES PUBLIC NOTICE TO YOUR CREDITORS THAT A TAX LIEN EXISTS AGAINST YOUR PROPERTY. SALARY OR WAGES DUE YOU MAY BE LEVIED UPON, AS PROVIDED BY SECTION 6331 OF THE INTERNAL REVENUE CODE, BY SERVING A NOTICE OF LEVY ON YOUR EMPLOYER. BANK ACCOUNTS, RECEIVABLES, COMMISSIONS, OR OTHER KINDS OF INCOME YOU HAVE ARE ALSO SUBJECT TO LEVY. PROPERTY OR RIGHTS TO PROPERTY, SUCH AS AUTOMOBILES, MAY ALSO BE SEIZED AND SOLD TO SATISFY YOUR TAX LIABILITY.

TAX FORM NUMBER
TAX PERIOD ENDED

BALANCE OF PRIOR ASSESSMENTS
LATE PAYMENT PENALTY
INTEREST

TOTAL AMOUNT DUE

ENCLOSURES
ENVELOPE

Reply within 10 days
to avoid enforcement action
and additional penalties.

If you have any questions, you may call or write — see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls

See back of this notice for more information.
Keep this part for your records.

↓ DETACH HERE ↓

Form 8136 (10-83)

Department of the Treasury
Internal Revenue Service

PHILADELPHIA, PA 19255

In reply refer to
DEC 13, 1984

Social Security Number
Tax Period: Dec 31, 1983

Dear

Thank you for your inquiry of Oct 25, 1984 regarding our notice about underpayment of your estimated tax for Form 1040

We are sorry, but we cannot change the penalty, because our records show you did not pay your estimated tax when due. The due dates are April 15, June 15, September 15, and January 15

We are sorry, but under the provisions of the Internal Revenue Code, we cannot cancel any part of the estimated tax penalty unless you qualify for at least one of the exceptions described in the enclosed Form 2210 Instructions.

Your payments were received Apr. 23, June 28, Sep 22 and Jan 26

When you send the information we requested or if you write to us with questions about this letter, please provide your telephone number and the most convenient time for us to call so we can contact you if we need additional information. Please attach this letter to any correspondence to help us identify your case. Keep the copy for your records.

Thank you for your cooperation.

Sincerely yours,

Chief, Taxpayer Assistance Section

Enclosures:
Form 2210
Copy of this letter

Department of the Treasury
Internal Revenue Service

Date of This Notice
10-19-84
[illegible]

If you inquire about your account, please refer to these numbers or attach this letter ▶

Document Locator Number

We have previously written you asking for payment of the Federal tax identified below, but we have no ecord of receiving it. The tax is overdue and the law authorizes us to file a notice of Federal tax lien and eize your property, wages, or other assets to satisfy your unpaid tax. The total amount due includes interest nd penalty and should be paid immediately to avoid additional charges.

Make your check or money order payable to the Internal Revenue Service, show your taxpayer dentifying number (social security or employer identification number) on it, and send it to us with this letter o assure prompt and accurate credit. An envelope is enclosed for your convenience. The copy of this letter s for your records. If the total amount due as shown below is incorrect because of a recent payment or other adjustment, please send any balance due, and explain the difference on the back of this letter.

If you cannot send full payment or if you want to apply for installment payments, write or telephone us mmediately. A prompt response is necessary to avoid enforced collection action.

nclosures:
nvelope
opy of this letter
elephone Number Notice

Tax Form Number
Tax Period Ended

Balance of Prior Assessment $
Late Payment Penalty
Interest

Total Amount Due

eply to: INTERNAL REVENUE SERVICE
PHILADELPHIA, PA 19255

E

Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

If you have any questions, refer to this information

Date of This Notice AUG. 27, 1984
Social Security Number
Doc
Fo

Call: 574-9900 LOCAL PHILADELPHIA
or 1-800-424-1040 OTHER EASTERN PA

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
PHILADELPHIA, PA 19255

If you write, be sure to attach the bottom part of this notice. Include your telephone number and the best time to call.

Correction to Estimated Tax

In checking your income tax return, we had to make corrections for the reasons shown below
An incorrect amount was claimed ·s estimated tax payments and
t of Estimated Tax Account).

Payment Due By ....
Total Tax on Return ..... $

Corrected Balance of Tax on
Tax Withheld ....
Estimated Tax Payments .
Other Credits ....
Other Payments ....
Total Payments and Credits

UNDERPAID TAX...
*Penalty ....
*Interest ....
Amount You Owe ....

If you believe our records are not correct, notice for information about the amount you owe. Make your check money order payable to Internal Revenue Service. Please show your social security number on your payment and mail it with the bottom part of this notice. An envelope is enclosed for your convenience. Thank you for your cooperation.

*See these code numbers 09,02,07
an explanation of penalty or interest charges

PENALTY AMOUNTS:
Statement of Estimated

Date Tax Payment Received	Description of Item	Amount	Document Locator Number
APR. 26, 1983	PAYMENT		
JUNE 28, 1983	PAYMENT		
SEP. 22, 1983	PAYMENT		
JAN. 26, 1984	PAYMENT		

Keep this part for your records. Form [illegible] (Rev. 12-83)

Send this part with your payment or inquiry.

Chairman PICKLE. Have you sought or received an audience with your district director there in Philadelphia, the Internal Revenue Service Director?

Mr. WILF. We have not on this issue because we were properly told, I think, that this was not in the bailiwick of the district director and concerns the regional service center, and does not come under the district director's jurisdiction. The issue was taken up with the regional commissioner at a liaison meeting on October 19, 1984, in general. I was not there, but Mr. Lundy was, and he can tell you what happened at that meeting.

Chairman PICKLE. Mr. Lundy?

Mr. LUNDY. The issue was raised with the regional commissioner and his various delegates at the regional liaison meeting to which Mr. Wilf refers, and we were advised at that time that the matter would be looked into, and the appropriate actions would be taken.

Our continuing concern, just to underline what Mr. Wilf has said, is one of the continued view of the Service to leave the burden of trying to determine who has inappropriately, mistakenly, or out of fear, made payments and should not have been imposed by this penalty. It would appear to be the Service's position—as we read not only the documents that they have sent back to us, but also the testimony that was given today—that only if it is called to the Service's attention they will rectify the problem. But if it is not called to their attention, then matters will sit as they are.

Mr. WILF. There was another situation rising out of that meeting. The problem of the erroneous late payment penalties was known at the regional commissioner level on October 19 if not before. Yet, after that date, computer generated notices continued to be sent out. There was no attempt that we are aware of—and we don't have all the facts, the Service has the facts—to stop these erroneous computer-generated notices.

We do note in the Commissioner's testimony earlier today that, at one point in the FTD problem—I think the date was the 22d of January—there was a manual interception of the computer-generated notices and they stopped. That did not happen in our case. These computer-generated notices continued to be sent after the Service was aware of the error, and that is the part that really disturbs us.

Mr. SCHULZE. Is this unique to Philadelphia? Is this happening all over the country, or do you know?

Mr. WILF. We made inquiries among our colleagues around the country and this appears to be unique to Philadelphia. If the problems exists we are not aware of it in as broad a context as in Philadelphia.

Mr. LUNDY. It would include the Philadelphia Service Center and not just the city of Philadelphia.

Mr. NOLL. Mr. Chairman, I may add to that that in my research for this testimony, that I called accountants in New Jersey that are serviced by the Holtsville, NY, office, and they didn't seem to have so many problems as what we have in Philadelphia. In fact, I can go on specifically about certain forms that we have received, like the form 940. We have received it the 27th of January this year and it was due at IRS the 31st. Now, if a taxpayer doesn't receive it until the 27th, then he has to mail it to the accountant, who has to schedule it into our work schedule and prepare it and mail it back to the client, who has to attach a check and file a form. It can never happen in 4 days. This has happened for 2 years. I am told that Holtsville doesn't have that problem.

Chairman PICKLE. Well, Mr. Wilf, I don't know why this committee cannot forward these questions or these concerns to the Commissioner and ask for a response. You have not heard from him yet?

Mr. WILF. We have heard indirectly. We attached to your packet, Mr. Chairman, three letters: A letter dated January 30 from me to Commissioner Egger; a response to that letter dated February 12, from the Regional Commissioner Waters to me at Mr. Egger's direction; and my letter back to Regional Commissioner Waters of March 5, just this past week, in response, saying that we are still rather unhappy and dissatisfied with the attitude and the decision of the IRS not to seek to cure this defect.

I also point out that, on page 22 of the Commissioner's testimony he points out that, in the FTD situation, the Service is contacting taxpayers and abating interest and penalty. They are not doing that in our situation. It could be that, maybe, it is not possible. I doubt it. We have no information about this; they have not offered us information. All they said was we will not issue a blanket amnesty provision. We are not asking for that.

Chairman PICKLE. What would you want our committee to do? Are you making a request of us?

Mr. WILF. Yes, sir, I think in this situation it would be helpful to these unknown taxpayers if the committee would urge that the Philadelphia Service Center use its best facilities to locate these people. They will know certainly who have been issued penalty and interest notices for late filing. Among that group are these people who, improperly, were assessed. I think the IRS should do something to allay the fears of people and should implement some kind of a search and repayment, rather than search and seizure procedures, to use their talents to pay back money improperly collected as they are interested in collecting money properly owing. We think all of these things should be done.

We have struck out, Mr. Chairman. We hope your committee will help us.

Chairman PICKLE. Well, let's see if we can't. We will try to do that.

I like the way you put it. You are interested in repayment rather than procedure.

Mr. WILF. That is correct, sir.

Chairman PICKLE. Before you leave, I want to ask you, do your clients have a fear or a feeling of some fear and frustration of IRS as stated by Mr. Noll?

Mr. WILF. The answer is, unfortunately, yes. Perhaps not as great a fear as Mr. Noll's clients and colleagues, but I do recall that when this issue was discussed at the meeting of our Section of Taxation Council, a few of the people there—and they are good tax practitioners, like Mr. Noll's colleagues—did express some concern. But, although they expressed concern, yet they admitted to a person that the IRS would not take any punitive action. But the thought does enter the mind, unfortunately.

Chairman PICKLE. Do either of you gentlemen know anything about the Philadelphia snafu of the 28,000 cases that you heard earlier this afternoon? Do you have any clients involved in that?

Mr. WILF. No, sir, we didn't know about that situation until the morning that we sent our letter to Commissioner Egger, when it broke in the newspaper. It is a completely different situation. We did not know about that. We were surprised and concerned and I am sure the Inquirer's reporter was accurate that some of the people who were involved in that situation refused to identify themselves. It is not a happy situation that people are that concerned to identify themselves.

Chairman PICKLE. But Mr. Noll says they are afraid to identify themselves.

Mr. NOLL. Mr. Chairman, many believe that. I have one client, but I don't have the letter in front of me today, but I am told that they got a notice for an $8,000 back payment and interest and penalties, which they assessed and which they paid in approximately mid-December over the computer snafu, and as of Friday in our office, my understanding is that they had not received a refund. I believe they had received a letter apologizing, but at this point there is no refund.

This is a small taxpayer that has had to pay double his taxes since last October.

Mr. WILF. One other comment, if I may, sir. The reason we believe that we as a group, did not know about the FTD snafu, is basically that those payments are made by the corporate controllers and treasurers and that practitioners would rarely, if ever, have any contact with that kind of payment. We practitioners would not file those returns. The FTD problem dealt with returns and payments that would be taken care of right at the corporate or other taxpayer level. That seems to have been the case.

Chairman PICKLE. Would you care to make any general statement about the Philadelphia Service Center? Is it efficiently run or is there a great need for improvement or is the main thing this general lack of response once you made contact?

Mr. WILF. We believe that a great deal of improvement can be made in their procedures. To their credit, the Regional Commissioner and the Service Center director have requested that we, as the Section on Taxation, go through the Service Center to see what happens and what does not happen. Regional Commissioner Waters asked for that, again, and our response to him was that we will be happy to do that, but that we are concerned at this time with what the Service Center is doing to correct the problems, not what it may do in the future to correct various specific problems.

We think we can be helpful. We do know that the service is attempting to be helpful, but have not been very successful in some instances.

Mr. SCHULZE. As a nation we are spending an awful lot of money on computers to enhance the activities of the Internal Revenue Service. As you gentlemen go along through your daily functions, and run into this kind of problem, we would appreciate it if you would let the committee know about these problems. You should write the IRS and try to get them to solve it on that level; but if you reach that level of frustration, that is why we are here. Feel free to drop us a note and let us know. That is part of our oversight function.

We are not out to get the IRS. We are out to make the system function and function correctly. There is a bureaucracy in big business as well as in Government, and the IRS and people don't like to rock the boat. If things work fairly we will just keep it going, but occasionally we have to give the boat a little bit of a shake. Once in a while you are going to run into blank walls, and that is why we are here, to try to give that boat a little bit of a rock. We don't want it turned over, we just want to shake it.

If you, in your normal course of business, can think of ways that you could communicate better with the IRS, with the District Director, or those who have access to the computer, I would appreciate it if you would let us know. It seems to me that an awful lot of these problems have to do with communications and the frustration which results when mail is sent out and no response or a wrong response is received. That frustration also increases when you don't have access to the computer, or you don't get to the problem resolution stage until you go through four or five other stages.

There has to be a way that you can have that access. So I would very much appreciate your input or the bar association or accounting associations', on ways to improve that access.

Mr. WILF. We will be happy to do that, Representative Schulze, and we are so proud of your activities for our district. We will continue to do that and we share your concern of the response of the Internal Revenue Service.

Mr. SCHULZE. I thank you.

Do you have anything you would like to add?

Mr. LUNDY. No, thank you.

Mr. SCHULZE. Mr. Noll.

Mr. NOLL. Just in completing it, two points. One is that I have discussed this communications problem with our former district director about 2 years ago, as part of our society's liaison committee, and what we got out of it was something to the effect that they are 97 or 98 percent efficient, or some number like that, and that in big business there will be problems and I think it was an accepted norm, was my understanding of the answer, that if you only have 1 or 2 percent problems you are in good shape.

I believe in Philadelphia that amounts to maybe 400 or 500 bad notices per day, and I don't think that is good enough.

Mr. SCHULZE. That is why we are spending all this money on these computers and why we have to make sure that the people are trained right, and they are performing their functions correctly. We don't want 400 or 500 mistakes a day. We don't want 97 percent, we want better than that.

Mr. NOLL. And then finally, I don't know if this committee is aware of such problems as the Computer Program. In some cases I am told it is not programmed to handle tax payments the way the law is written. Specifically, I am referring to the taxpayer who has a liability that includes interest and penalty. The law says that he may submit a request to have his payment applied in any manner he wishes. Therefore, he could apply it to the back interest first, the back penalty first, or the back taxes.

I have personal information, and it can be substantiated by other documentation from our society, that the computer in Philadelphia will not and cannot apply the taxes per the taxpayer's request and it takes the route of least resistance, which causes all sorts of continuing problems to persist, and I believe that is a significant problem.

Mr. SCHULZE. I appreciate your bringing that up. It seems to me to be a programming problem and one which could and should be looked into and corrected.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Wilf, you were here earlier in the afternoon and heard the Commissioner state that he opposed cuts in the IRS overall budget and the service center staffing efforts are going to be rather severe, at least a $15 million cut. Now, if the Philadelphia service center were given additional resources or staff, where should the additional funds and staff be allocated? Where could they use it best if they were to either maintain those funds or get some extra funds.

Mr. WILF. I think we will all agree that additional audits will be a little help. I don't say that as being a tax practitioner, who may be involved professionally in that. We all know that audits have been cut down in number although the productivity of the audits have been increasing by hugh volumes. I think that with more audits, the more you are going to have compliance by taxpayers and that with more compliance by taxpayers, the easier it will be on us practitioners, quite frankly.

We admire the IRS when it is out there fairly and firmly administering the law. Then, we won't have runaway clients who would run away to the least desirable practitioner for his submissions. That is a real problem.

We also suggest that some money be spent on taxpayer servicing. Now, we know that 1 year or 2 years ago the administration, at one point, had suggested even cutting off the taxpayer telephone squad and that was changed due to great effort by Congressmen such as yourselves. We think more of that kind of service would be helpful to try and reconstitute—I won't say the good name of the IRS—the recognition of the IRS as an agency not to be feared and the IRS as an agency which will service taxpayers.

Chairman PICKLE. What experience have you had about individuals who call in to use taxpayer services and how many times will they have to hold the phone or let it ring or then hold on?

Mr. WILF. It is very difficult. They are busy, particularly in the tax season. There seems to be much fewer people involved and you hold the phone longer, and it seems very difficult to get through. The line is busy, busy, busy.

Chairman PICKLE. Then when you get the line, you are asked to hold on?

Mr. WILF. Sometimes, yes sir. We do find that if we do get to a problem resolution officer that he or she is helpful, but as Mr. Noll suggests, we don't get there that frequently, or that soon.

Chairman PICKLE. Well, I have the same trouble in my district. People complain and everybody seems to have tax problems, and when they do, they want some answer and they want some relief if they can, and we have got to somehow find a way to do better. Had we cut out the taxpayer services entirely I think that would have been a grievous mistake.

Mr. WILF. That would have been terrible.

Chairman PICKLE. Again, I want to ask you do you want me to make reference to these particular cases, are they for an answer or are you just giving those to us primarily for an example?

Mr. WILF. We give them to you as an example, Mr. Chairman. We would like to have answers. We have deleted, of course, any reference to the taxpayers themselves and in many of these instances the Service already has letters concerning these taxpayers, but the taxpayers were reluctant to give us permission to identify themselves here.

Mr. LUNDY. Specifically though, I think that our central issue that we would like resolved is whether the Service is prepared to self-initiate a review to determine whether the penalties and interest assessments were erroneously made in 1983 and 1984, and, in these cases when there were erroneous collections of penalty and interest, to initiate refunds to the affected taxpayers. It is consistent with IRS Policy Statement P.610, which is cited on page 21 of the Commissioner's earlier statement, which we totally subscribe to, Mr. Chairman.

Chairman PICKLE. As I understand it, Mr. Noll, some of the inquiries you have given to us, the names of the taxpayers involved are still listed in the material you sent us. I assume you would want that deleted if we forward it on for an answer?

Mr. NOLL. Yes sir. A little point. I have spoken with all these people over the phone, but I think it would be a good idea to delete that.

Chairman PICKLE. All right.

Well, I want to thank you gentlemen.

Mr. WILF. Thank you, Mr. Chairman.

Chairman PICKLE. I know these are problems that affect not just our district or you as individual practitioners, but typically affect people all across this land, and somehow we have got to restore the confidence of people in the tax-paying system that we have. In order to continue this voluntary compliance system, if we don't do that, we are all in big trouble, so we all try to find a better way to do it.

We thank you gentlemen for appearing and for your testimony. It is very helpful to us. If there is no other question, the committee stands adjourned.

[Whereupon, at 6 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF ROBERT T. ZALESKI, PRESIDENT, PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS

While the purpose of the hearing held on March 11, 1985 was to examine a specific computer problem of the Philadelphia Service Center not properly crediting payroll deposits, this problem is actually only part of a continuing problem. I can cite case examples of problems that were caused by this particular incident, but I can also cite many more that show a continuing pattern of computer problems.

The Pennsylvania Society has a committee, of which I used to be a member, which meets twice a year with the District Director and his staff. The meetings are an opportunity for both sides to talk professional to professional in a candid fashion. It is an opportunity we greatly appreciate.

Attached to my testimony are minutes from these meetings going back to 1977. Each one cites computer problems and resultant correspondence problems. These minutes show that the "computer problem" is an ongoing one. My hope today is that this hearing, by focusing attention on a specific incident, can start an examination of those "regular" incidents in order to prevent the continuing "computer problem" from becoming a permanent problem.

The computer problem, which does not appear to be confined to Philadelphia, is interrelated with problems of communication, training, and attitude. In addition there are problems stemming from a lack of standard procedures in some areas.

Communication problems include taxpayers who receive an erroneous notice of taxes and penalties due and who send in copies of their cancelled checks only to receive additional notices of taxes and penalties being due. There are cases where the erroneous notice has led to an erroneous lien on the taxpayers assets. There are even cases where the accountant has gotten the lien removed only to find a month later that it has been reimposed.

Communication problems also stem from what seems to be an IRS policy of never allowing a taxpayer or an accountant to deal with the same person twice. What generally happens is, the accountant calls the IRS, explains the problem to someone who assures the accountant the problem will be taken care of. A month later, the taxpayer again receives a dunning notice. The accountant again calls IRS, talks to a different person, reexplains the problem, and is again assured that the problem has been resolved. The next month—and frequently for several months thereafter—the scene is replayed.

Usually, in a situation such as this, the accountant has asked for the name of the person he is speaking to. When he calls back, however, he is told there is no such person. I have been told that the IRS Taxpayer Service Representatives are told to give out a fictitious name. While I can understand that logistically there might be a problem with the accountant trying to reach one particular service representative out of an office of 50, having to reexplain and reexplain the problem every time you call is a frustrating waste of time. In addition, the current procedure allows the nameless employee to escape responsibility for having failed to get the problem corrected the first time.

The Internal Revenue Code and its attendant regulations is a complicated and highly technical body of information. No one can know all of it and all of us work daily with shelves of technical resources. At the same time, many practitioners are frustrated by an inability or unwillingness of Taxpayer Service Representatives to meet the needs and expectations of the practitioner regarding technical and procedural matters. All too often, the accountant must explain to the service representative what the appropriate code section or procedure requires. This, of course, means that the service representative must "check on that" and get back to the accountant. And so the "communication problem" begins.

Perhaps the service representative is not to blame for his or her confusion over procedures. At times it seems that there are no procedures. For example, if the taxpayer is claiming that the tax was paid, he or she must prove it. Usually, this is done by sending IRS a xeroxed copy of the front and the back of the check. Sometimes, however, the taxpayer is also required to send a copy of his or her bank statement showing the deduction of the check. Now why IRS needs the bank statement when it has a copy of the cancelled check, I don't know. I do know that if the IRS could let practitioners know what their set procedure is on which taxpayers must send in a copy of their bank statement then, it would save these taxpayers from going through one more delaying round of letters.

There also appears to be no set policy on which taxpayers get seemingly endless dunning letters and which receive only one letter followed by a final notice. In my practice, I have been unable to discern what it is that causes the IRS to jump on one taxpayer almost immediately while another just keeps getting dunning notices. The difference in treatment does not appear to be based on the size of the liability or the type of return. Maybe it's just that one taxpayer gets plugged into the computer "correctly" and the other "incorrectly". But, which is which?

Finally, the IRS in general, seems to have a real attitude problem. It appears they have forgotten that service is part of their name. This attitude, which is pervasive in the organization, is one of antagonism towards taxpayers and tax practitioners. It is reflected in the joke about the two line tax return which asks what someone made and then directs them to pay it to the IRS. It is the reason why many fear the IRS. It shows when an agent is conducting an audit and the taxpayer learns that he's guilty until proven innocent. It is behind the ongoing "computer problems" that the Service apparently makes no real attempt to correct.

This attitude, more than anything else, is probably what led to this hearing. When you are working with someone to correct a problem, you are understanding if he cannot solve the problem right away. When you are working against someone to solve a problem, you are much less understanding. When that someone will not even admit that there is a problem until forced to—as in this case—you get angry. For all the problems the IRS has, we honestly think the problem of its attitude toward taxpayers is its most serious one.

These cases illustrate some of the problems I have been talking about. Though these problems occur in all of the Service Centers, Philadelphia seems to have more than its share.

Allow me to cite a few examples of problems specific taxpayers have had with the Philadelphia Service Center.

One client of mine, who had timely paid his 1980 taxes, received a notice of taxes being due in August 1981. A copy of the front and back of his check was sent with a request that the error be corrected and the penalty removed. In December 1981, the taxpayer received a request for a copy of his bank statement proving that the check had been deducted from his account. The taxpayer contacted me in June 1982, at which time a copy of his bank statement and another front and back copy of his check was sent. In July 1984 we received another request for the same information and we again complied. Again in October 1984, we received the same request from the IRS and again complied. The taxpayer has not received correspondence from the IRS since; however, until he receives notification that the problem has been resolved, I am assuming he still has a problem. I just don't know how to [illegible] it for him.

A problem of a slightly different nature is one another client of mine faces. This taxpayer sold his business in 1976 and took back a mortgage. When the mortgagee defaulted after one year, the taxpayer was without funds to pay the tax due on his gain from the sale. In 1981, not knowing how his suit against the defaulting mortgagee would progress, he made a collection arrangement with the IRS to have a certain amount withdrawn from his paycheck and remitted to the IRS to pay the taxes. In 1982, the IRS attempted to increase this amount to a sum that would be oppressive to the taxpayer. We petitioned the IRS to maintain the deduction as it was and were successful. In April 1984, the taxpayer resolved his suit with the buyer for half of the mortgage due. We petitioned the IRS for a hearing so that a new arrangement could be made for paying the taxes due. In December 1984, the taxpayer received a response to our request for a hearing which effectively said that our letter would be answered as soon as possible. We are still waiting for that response.

A taxpayer-client of a colleague of mine received a final notice in October 1984 stating that he owed $2,380.59 in taxes. He had received no previous communications from the IRS. The taxpayer had no idea why IRS was making this assessment but he made a $500.00 "good faith" payment in order to get the IRS to hold its collection actions in abeyance. After several attempts to discover why the taxpayer was being dunned for another $2,000.00 in taxes, the accountant was told, in December 1984, that the notice relates to some type of unreported income from a foreign source in 1980. The taxpayer has no idea of what this could be. The accountant last received correspondence from the IRS regarding this case last month. The IRS still cannot explain why the taxpayer owes these monies or what they are for.

Finally, there is a case where the problem started in Philadelphia but was resolved in Baltimore. An elderly taxpayer received a notice in August 1984 that she had not paid her 1983 taxes. A letter was promptly sent along with copies of her cancelled checks, clearly showing she had paid her taxes. In October 1984, she received a letter stating that the return and the tax payments had been located. All was well. In January 1985, she received a final notice threatening enforcement action. After writing to Philadelphia, the accountant contacted the Baltimore Problems Resolution Office. On March 1, 1985, the accountant received a phone call from Baltimore stating that the problem had been corrected. Philadelphia has yet to respond to the letter written in January.

NSPA and the Pennsylvania Society believe that all of the problems we have been discussing today are solveable if the IRS, accountants, and attorneys all work together. Many of the problems could be solved by such relatively simple things as having the IRS establish certain set procedures and then informing people as to what these procedures are. We would be happy to meet with IRS officials to help establish these procedures.

Many more problems could be solved by simply increasing personal contacts between the IRS Service Center and the local accountants and attorneys. I began my testimony by talking about the Pennsylvania Society's IRS liaison committee. I know several other state societies have similar committees as does the local institute of certified public accountants and the local bar. We have found these biannual meetings to be very helpful. They afford us an opportunity to exchange problems and information with the District Director and his staff. In fact, we believe increasing these meetings to quarterly ones would be very helpful.

We would also suggest that, either at the direction of the IRS Commissioner or through legislation, every district director have an advisory committee similar to the Commissioner's Advisory Committee. These committees, which would meet quarterly, should be comprised of representatives from the local accounting organizations and the local bar. In addition, one or two representatives of local taxpayers should be on the committee. These larger committees would afford even greater opportunities for the exchange of information among all of those who are concerned about the Service Center.

The frustrating problems of never being able to talk to the same IRS employee twice and the employee's lack of knowledge about certain portions of the Code or of the regulations or procedures might be dealt with by dividing employees into small teams, each responsible for one portion of the code. The accountant could call a central phone number, state what type of problem he has, and be connected to an expert in that specific area. Alternatively, he could call a particular extension to be connected to the appropriate expert. In this way, the accountant or taxpayer is assured of reaching someone who will know how to solve his problem. Working in teams of five or so employees, should also result in the caller being able to find out the real name of the person he is talking to as the logistics of trying to contact one person out of fifty is solved. By requiring the employee to give out his or her real name, the employee's accountability is increased and follow-up problems will be easier to solve.

These are just a few of our suggestions. As I have said, we believe the problems we have been discussing today are solveable if all concerned worked together on them. Those of us in the Pennsylvania Society would be happy to work with the District Director to do just that. I know other state societies affiliated with NSPA are also willing to work with their district director.

On behalf of NSPA and the Pennsylvania Society, I want to thank you for the opportunity to be here today. We appreciate the leadership role this subcommittee has taken in trying to solve these problems and look forward to working with you towards our mutual goal of improved service to the taxpayer. I am prepared at this time to answer any questions you may have.

PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS,
COMMITTEE ON COOPERATION WITH INTERNAL
REVENUE SERVICE (EASTERN DIVISION),
November 6, 1982.

TO THE BOARD OF DIRECTORS:

Our committee met on October 28, 1982 with: James T. Rideoutte, District Director; Reuben H. Saideman, Asst. District Director; James Wondolowski, Problem Resolution Officer; and Carl H. Weiss, Chief Quality Review Staff.

Our discussion included the following:

(1) Penalties assessed specifically with reference to Form 941: (a) Due to filing of wrong deposit cards. (b) Misapplication of funds by IRS Center. (c) Make certain that proper entries are made in columns b & d on Form 941. (d) Computer problems at the center (which we were told) would be eliminated by 1/1/83. (e) If your problem has not been solved within 45 days, address a communication to the Problem Resolution Officer at the Center.

(2) IRC-6651: Penalty for failure to file within 60 days (with extensions) is lesser of $100.00 or the amount of underpayment. Penalty not assessed if no tax liability. Applies to returns due after 12/31/82.

(3) Form 2848—Power of Attorney: An attorney, CPA or enrolled agent may represent taxpayer before IRS as heretofore. An unenrolled preparer may act as taxpayer's representative by filing Form 2848-D, which is written authorization from the taxpayer. There are, however, limits of authority.

(4) Taxpayer's Service has been drastically reduced due to budgetary problems.

(5) There is no cold canvassing in the IRS program to check if certain forms are filed and proper payments made.

Again, we appreciate the continued cooperation of Mr. Rideoutte and his staff.

Respectfully submitted,

MORRIS SEIDMAN, *Chairman.*
MARVIN R. HUTTMAN.
ROBERT T. ZALESKI.

PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS,
COMMITTEE ON COOPERATION WITH INTERNAL
REVENUE SERVICE (EASTERN DIVISION),
November 7, 1981.

TO THE BOARD OF DIRECTORS:

Our committee met on October 29, 1981 with: James T. Rideoutte, District Director; and Gail Forster, Chief Taxpayers Service.

Our discussion included the following:

1. Correspondence problems: (a) There has been a systemic problem at the IRS Center regarding payments received in June and July. We were informed that this problem would be resolved by November 6, 1981. (b) Refund Delays: Should be forthcoming within 5 weeks after submitting returns. (c) Interest on refunds starts 45 days after due date. (d) Applications for Extension of Time to File should be filed at least 4 weeks prior to due date. If you do not receive acknowledgment, you may assume a 10 day grace period. (e) Turn around time for correspondence: normal period is 4 to 10 weeks.

2. Overstated tax deposit claims: Penalty of 25 percent of overstated deposit claims is in addition to existing penalties for underpayment of taxes.

3. Mr. Rideoutte informed us: (a) There will be cuts in taxpayer service: no preparation of returns by IRS. (b) Abusive tax shelters will continue to be a target. (c) IRS is closing in on tax protestors. (d) IRS is attempting to identify problems in the underground economy. (e) Anticipate no problems with distribution of forms. (f) Tax forms mailed to taxpayers will not be forwarded by the Post Office if taxpayer has moved and not notified IRS of change of address.

Again, we appreciate the continued cooperation of Mr. Rideoutte and his staff.

Respectfully submitted,

MORRIS SEIDMAN, *Chairman.*
J. EDWARD SNYDER.
ROBERT T. ZALESKI.

PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS,
COMMITTEE ON COOPERATION WITH INTERNAL
REVENUE SERVICE (EASTERN DIVISION),
June 21-24, 1981.

REPORT TO 34TH ANNUAL MEETING:

Our committee met with James T. Rideoutte, District Director, and his staff on October 29, 1980. Also present, at our request. were: Normal Morrell, Director of the IRS Center; and Mike Kunts, Chief Management Staff of the Center.

Our discussions included the following:

(1) Audit Method Changes to Total Positive Income (referred to as TPI): (a) For audit purposes, IRS will classify individual returns by means of TPI instead of Adjusted Gross Income [AGI]. For business returns total gross receipts will be used: sum of all receipts on Schedule C&F. For nonbusiness returns TPI will be calculated by adding all income items. Losses (negative items) will be considered as having zero value. (b) All individual returns for 1979 and later years will be classified under the TPI method.

(2) IRS Center—Correspondence Problems: Advice: If correspondence with the Center does not settle the problem, contact the Problem Resolution Office—597-3377.

(3) Tax Return Preparer Penalties: (a) Specific cases of errors in penalty assessments were brought to the attention of Mr. Kunts and were, subsequently, resolved. (b) Negligence penalties: No agent can assess. Group Manager approval is mandatory, not for occasional errors but for consistent negligence.

(4) A group tour of the Service Center was held on 2 days during the latter part of November. Mr. Zaleski who arranged the tours with Mr. Kunts will brief you on the details.

Our meetings have been most productive and we appreciate the cooperation that we have received from Mr. Rideoutte, his staff and the representatives from the IRS Center.

Respectfully submitted,

MORRIS SEIDMAN, *Chairman.*
J. EDWARD SNYDER.
ROBERT T. ZALESKI.

PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS,
COMMITTEE ON COOPERATION WITH INTERNAL
REVENUE SERVICE (EASTERN DIVISION),
November 4, 1978.

TO THE BOARD OF DIRECTORS:

Our committee met on October 27, 1978 with James T. Rideoutte, District Director and three members of his staff: Reuben Saideman, Assistant District Director; Robert Dais, Chief, Audit; and Jay West, Chief, Taxpayers Service.

Our discussion followed a proposed agenda submitted by us:

(1) Tax return preparers: (a) Practitioner responsibility for accuracy of client data. Generally in preparing a return, the preparer may in good faith rely without verification upon information furnished by the taxpayer. However, he must exercise due diligence in his request for information which he deems necessary to properly arrive at the tax liability. Examples: Question waiter regarding tips. Question existence of proper records re: travel and entertainment. (b) Forms 2210 and 2220—preparers liability: There is still some confusion regarding these forms and Mr. Rideoutte will advise us of IRS policy.

(2) Correspondence: Delays in response from IRS Center:

Replies should be forthcoming within 2 or 3 weeks. In the event of a serious problem that has not been resolved, you may write or call: Problem Resolution Officer, 671-2170, Helen Henson, Internal Revenue Service Center, P.O. Box 69, Cornwells Heights, PA. 19020; or Problem Resolution Center, 597-8970, Rich Firely, Internal Revenue Service, P.O. Box 12899, Philadelphia PA. 19106.

IRS acknowledges the problems and are attempting to correct them. A new telephone directory will be mailed to practitioners in November.

(3) Forms: Publication 1045 is in the mail and contains order forms: 2333 series. Form 940 should be received by December 20. Package X—mailings will start November 18. Bulk shipments will, again, come from Richmond, VA. Orders will be filled promptly. A special forms number (24 hour service) 627-7373.

The only tax institute in our area will be held at Villanova University. In unagreed cases, it is urgent that your protest letter be mailed within the 30-day period. Philadelphia District preparers were complimented on doing their own research.

Again, we appreciate the cooperation of Mr. Rideoutte and his staff,

Respectfully submitted,

MORRIS SEIDMAN, *Chairman.*
ROBERT T. ZALESKI.
LEON ROBIN.

PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS,
COMMITTEE ON COOPERATION WITH INTERNAL
REVENUE SERVICE (EASTERN DIVISION),
November 5, 1977.

TO THE BOARD OF DIRECTORS:

The members of our committee met on October 26, 1977 with James T. Rideoutte, District Director IRS and five (5) members of his staff: Paul Dickey, Assistant District Director; Robert Dais, Chief, Audit; Jay West, Chief, Taxpayers Service; Wm. Bridges, Chief, Collections; and David Olsen, Chief Administrative Services.

Our discussion centered on a proposed agenda, which was submitted to Mr. Rideoutte by our committee one (1) month prior to our meeting date.

The following are some of the highlights that should be of interest to you:

(1) In telephone conversations regarding notices received by taxpayers—information extended by the practitioner will be received and acted upon, but little information will be furnished by IRS, unless a power of attorney has exercised and filed.

(2) We were advised that the Richmond, VA, distribution center has been staffed by competent personnel and that tax form orders will be filled promptly. Forms will be available at walk-in stations in IRS offices in quantities not to exceed ten (10) of each form. Be sure that you are on the practitioners mailing list and if you have not received publication 1045 (which contains order forms) you may call the special forms number 627-7373.

(3) Correspondence problems were discussed—particularly relating to IRS Center. There is a computer problem, but replies should be forthcoming within two (2) to three (3) weeks. In the event of a serious unanswered letter that requires attention you may write to: Problem Resolution Officer, Internal Revenue Service Center, P.O. Box 69, Cornwells Heights, PA. 19020; or call 969-2601.

In the case of a similar problem with the District Office, the address: Problem Resolution Officer, Internal Revenue Service, P.O. Box 12899, Philadelphia, PA 19106, or call 597-9612.

4. Regarding continuing audits of returns where no change has occurred for 2 years, call this to the attention of the Agent who has been assigned and unless there are unusual itemized deductions, the audit may be cancelled. This refers to individual non-business tax returns.

5. With reference to signature of tax return preparers, the procedure is: Prepare the return—sign the original. You may then photocopy the form and file it with IRS, providing you retain the original signed return in your file. This procedure is in accord with the statement made at the NSPA Convention in August at San Franciseco by the Commissioner of Internal Revenue, Jerome Kurts.

PAOLI, PA, *March 1985.*

JOSEPH K. DOWLEY,
Chief Counsel, House Subcommittee on Oversight, Longworth Building, Washington, DC.

DEAR SIR: Re problems with IRS collection modus operandi; I wish to submit the following:

On a tax return of several years ago, I was required to pay an additional sum of approximately $75 which I paid by check.

A number of months later I was advised that I still owed the amount and was to be assessed an additional fine. I was instructed to send in a photocopy of check, etc., if I had paid. I also sent in a copy of my mail registration receipt. Several months later ditto the foregoing. I repeated the procedure. The third time I was threatened with a sale of our house, but no acknowledgement of any of my previous correspondence.

I made a number of phone calls and finally found someone who suggested that I call and write asking for a certain procedure. After a year's total time, I finally received acknowledgement that my bill had been satisfied. No apology for inconvenience. No acknowledgement of correspondence. I don't know that the implied meanness is deliberate but it is certainly mindless. Incidentally, my registration receipts were stamped no name. (This is probably a good reason for not using registered mail.) Apparently everything gets lost in their vast system.

Once the machinery gets set in motion there is no one to protect the taxpayer. The individuals I talked to on the phone with one exception didn't seem to know what to do or whom to refer you to. There should be some personal contact that you could show receipts to protect the individual.

JOHN J. SNOWDON.

TAYLOR & DICKSHOTT P.C.
CERTIFIED PUBLIC ACCOUNTANTS,
Livonia, MI, February 25, 1985.

JOSEPH K. DOWLEY,
Chief Counsel,
Longworth House Office Building, Washington, DC.

DEAR MR. DOWLEY: I recently noted that hearings are being held in regard to erroneous tax payment posting problems in the Philadelphia Service Center. The purpose of this letter is to discuss the problem from an independent CPAs point of view.

In late 1983 and 1984 one of our clients had a similar problem, wherein payment for 5 years back taxes was credited (by Cincinnati) to their estimated tax account for 1983. The IRS sent the account for collection and placed a lien on the taxpayer's assets before it was necessary to contact the Problem Resolutions Office. The entire mess took about 5 months to resolve.

In June 1984 I had a personal problem, that only now is close to resolution, and again it was necessary to contact the P.R.O. to obtain results.

These two examples highlight the greatest problem and I believe the primary reason for the decay in the IRS image and credibility in the eyes of the public and the professionals. The IRS is not responsive in a timely manner.

Steps should be taken to process the exceptions, problems and taxpayer correspondence more quickly and effectively. This may be accomplished by the use of trained personnel, functioning as a special or separate group. (Expand the P.R.O.?)

I trust this letter will aid you in your insight into some of the problems.

Very truly yours,

RICHARD J. DICKSHOTT, C.P.A.

WIENER AND GARG,
CERTIFIED PUBLIC ACCOUNTANTS,
Bethesda, MD, May 3, 1985.

Re Hearing on Internal Revenue Service Operations.

JOSEPH K. DOWLEY, Esq.,
Chief Counsel, Committee on Ways and Means, House of Representatives, Washington, DC.

DEAR MR. DOWLEY: I am writing to register a compliment as well as a criticism. The compliment is directed specifically toward the patience and courtesy of two taxpayer service personnel in the collection division of the Washington, D.C. office of the IRS at 1201 E Street, N.W. These two ladies, Mrs. Duarte and Ms. Amick, were polite, courteous and helpful as they tackled two collection related problems involving an agreed case covering several taxable years. I felt like the taxpayer "had a friend in the business" as these two women attempted to solve my client's problems.

Unfortunately, one problem is still unresolved. Even though I was assured that the computer showed a zero balance of unpaid interest remaining for a particular year, a bill later came from the computer which the taxpayer paid rather than endure the correspondence procedure.

I know from reading the many accounts in the press that this problem was less serious than most ($391 to be specific), but I feel that credit should be given to the individuals responsible for face-to-face dealing with distressed taxpayers and their representatives.

While the overall computer and processing problems will require much attention and hopefully permanent viable solutions, the professional manner demonstrated by these women is encouraging. Unfortunately, despite their best efforts, the system could overcome only one of the two problems.

Sincerely,

WENDELL W. WIENER.

MELROSE PARK, PA, *March 3, 1985.*

Mr. JOSEPH K. DOWLEY,
Chief Counsel, House Subcommittee on Oversight, House Office Building, Washington, DC.

DEAR MR. DOWLEY: I am sending you this request for being included as a witness in the forthcoming hearings in the probe of the IRS in accordance with an article in the Philadelphia Inquirer today.

My unfortunate experience was, that the IRS "lost" several payment which had made and then without any warning nor letters blocked my bank accounts and credit cards.

Only senatorial intervention gave me my account back. My own letters and proof of their errors have remained unanswered.

Letters, since, have remained unanswered. Only much later after the incident did they "find" the funds. They never acknowledge this fact, but it came from a senatorial office.

Letters to the service since then for an explanation and subsequent action show me "How much these public servants care about their tax-payer employers".

Yours truly,

RUDOLPH M. WYLE.

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